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DUAL STANDARD: HEALTH INSURANCE FOR AMERICAN AND FOREIGN EMPLOYEES OF MULTINATIONAL COMPANIES

HEARING

OF THE

COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

EXAMINING THE DISPARITY IN HEALTH CARE COVERAGE FOR AMERICAN AND FOREIGN EMPLOYEES OF CERTAIN MULTINATIONAL CORPORATIONS

JULY 22, 1994

Printed for the use of the Committee on Labor and Human Resources

U.S. GOVERNMENT PRINTING OFFICE

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C O N T E N T S

STATEMENTS

Friday, July 22, 1994

ADDITIONAL MATERIAL

DUAL STANDARD: HEALTH INSURANCE FOR AMERICAN AND FOREIGN EMPLOYEES OF MULTINATIONAL COMPANIES

FRIDAY, JULY 22, 1994

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, DC.

The committee met, pursuant to notice, at 10:25 a.m., in room SD–430, Dirksen Senate Office Building, Senator Edward M. Kennedy (chairman of the committee) presiding.

Present: Senators Kennedy, Pell, Simon, Wellstone, Wofford, Kassebaum, Coats, Gregg, and Hatch.

OPENING STATEMENT OF SENATOR KENNEDY

The CHAIRMAN. We will come to order.

We meet this morning to consider the flagrant discrepancy between the health benefits provided by two major U.S. corporations for their workers here at home compared to the benefits they provide to their workers abroad. Simply put, these companies are applying an unacceptable double standard. The disparity is shocking.

In Germany and Japan, Pizza Hut and McDonald's contribute 50 percent of the cost of employee health insurance, but according to a recent report by the Health Care Reform Project, they pay far less to cover their workers here at home.

It might be understandable if foreign corporations were exploiting American workers; but these two corporations are quintessentially American—as American as pizzas and Big Macs. These American companies are working hard to make sure that their American workers do not get a fair slice of the pie, or the burger. They do not want to give American workers the kind of health benefits they give to their employees abroad, or their executives here in the United States.

Together, McDonald's and PepsiCo, Pizza Hut's parent, made nearly $3 billion in profits last year. Their CEOs received more than $5 million in compensation. But they claim they cannot afford to contribute their faire share of the cost of health insurance for workers who barely make more than the minimum wage.

They claim that a program of employer-employee shared responsibility for health insurance will force them to cut jobs. Yet the Health Care Reform Project suggests that business is booming in the countries where Pizza Hut and McDonald's insure their workers. In Japan, Pizza Hut has announced plans to more than triple

the number of restaurants. In Germany, the number of Pizza Hut employees rose by a quarter between 1992 and 1993.

But you do not have to go abroad to see the holes in their argument. In Hawaii, shared responsibility has been the law for 20 years. According to their own 1991 report, McDonald's Hawaii operation had the highest sales percentage increase of any State for 2 years in a row. They were in the top five in profits for 5 years running.

I am sure we will hear some arguments from the other side. We welcome that debate. My own view is that this debate is already awash in crocodile tears. But we must now allow the debate over numbers to obscure the real issue, which is the right of every American to decent health care.

The majority of American companies already do the right thing—they insure their workers. Just yesterday, over 120 companies and business groups, including some of the country's most prominent names, released two letters endorsing the principles of universal coverage and shared employer responsibility. Even among small businesses, those with fewer than 25 employees, more than half offer health insurance to their workers and contribute to the cost.

Today we will hear from the owner of a small pizzeria who is doing all she can to help pay for insurance for her employees. Yet giants like Pizza Hut and McDonald's, with all their enormous profits, claim they cannot do the same.

Even worse, Pizza Hut and McDonald's are using the profits they have earned from their American employees to campaign against health reform that would make them pay their fair share for health care. Both corporations are members of the steering committee of the Healthcare Equity Action League, a group dedicated to defeating employer mandates. It is a textbook example of special interests working against American workers to keep them from getting guaranteed health care.

We are also concerned about the reports of Pizza Hut's efforts to suppress the truth about their double standard for workers. Last week, Health Care Reform Project tried to place television advertisements about Pizza Hut's health benefits, but the ads were never broadcast. According to press reports, Pizza Hut threatened the stations with a lawsuit and intimidated them into refusing the ad. A Pizza Hut spokesman claimed the ad was libelous, but when asked what part of the ad was false, he said he would have to check with his lawyers.

Today, we will try to get to the bottom of these charges, and I am going to play the ad and ask what is false about it.

Finally, I want to call attention to a memorandum that I requested from the Joint Economic Committee. Last week, Pizza Hut took out a full-page newspaper advertisement, suggesting that an employer mandate might force them to raise the price of a large cheese pizza from $11 to $19, the price in Germany. I asked the Joint Economic Committee to consider this claim.

Briefly, the JEC staff memo concludes that: "Such claims cannot be supported by economic analysis." The reason is that prices are determined by many factors—rent, raw, materials, restrictive import and retailing policies, and exchange rates. You cannot at-

tribute price differences on pizza, or any other commodity, to one factor like health care.

The JEC also turned up an interesting fact. According to their survey, the price of pizza in Canada, which has universal health coverage under a single-payer system is lower than in the United States. The chart over here shows the price of pizza in Canadian and U.S. cities in U.S. dollars.

You can see Toronto, Quebec, Montreal and Ottawa, with a single-payer system; their cost for pizza is less than even here in the United States. Does this mean that Pizza Hut and others are going to back a single-payer system? Obviously not.

Senator WELLSTONE. Well, wait a minute, Mr. Chairman.

The CHAIRMAN. They will probably say that many other factors must be taken into account. And that is exactly the point. They will use questionable economic claims to scare people away from health reform.

But this is not just about the price of pizza. The JEC staff memo also points out that many Pizza Hut workers are covered as dependents of workers for other company. Just before getting into that, when I looked into that, I said, well, that is interesting about the single-payer and what we have in the United States without any kind of mandate. So then I thought, well, I had better check the one State in the country that does have a mandate; so I checked Hawaii. I thought I had better look at the one State in the United States that does have a mandate, Hawaii, and to my dismay, I found out that a pizza that costs $11.49 here costs $14.59 in Hawaii. I thought it might be the smoking gun against the mandate.

So I picked up the phone and called Alaska, which is right next to Canada and does not have a mandate, and found out that a large cheese pizza there costs $15.99, which is over $1 more than what it cost in Hawaii. So we have our two offshore States, the non48, and the State with the mandate is still cheaper than the State without it. So it looks like the higher price in Hawaii has more to do with long shipping distance and remote location than the cost of the mandate.

The JEC staff memo also points out that many Pizza Hut workers are covered as dependents of workers for other companies. In effect, Pizza Hut is being subsidized by others that do the right thing and provide health insurance to their workers and families. They use this as a reason for not covering. About 71 percent of their workers are being covered, they suggest, and of course, they are, but it is by others. That is part of the issue about a fair playing field for all.

Many manufacturers are bearing not only their own health care costs, but those of Pizza Hut and other free riders. According to two economists from the Brookings Institute, real health care reform could reduce payroll costs by up to 7 percent in the aircraft and motor vehicle industries, a point that is often overlooked, that real reform could actually reduce the payroll costs for many companies involved in international competition.

We are at a turning point in the social history of this country. The challenge before Congress is clear—do we stand with the American people, or with special interests? Should every corpora-

tion do its part, or should some get a free ride while others pay more? It is time to give American workers the same rights that German and Japanese workers have. It is time to make health care for all Americans a right, too.

[The prepared statement of Senator Kennedy follows:]

Prepared Statement of Senator Kennedy

We meet this morning to consider the flagrant discrepancy between the health benefits provided by two major U.S. corporations for their workers here at home, compared to the benefits they provide to their workers abroad. Simply put, these companies are applying an unacceptable double standard. The disparity is shocking. In Germany and Japan, Pizza Hut and McDonald's contribute 50 percent of the cost of employee health insurance. But according to a recent report by the Health Care Reform Project, they pay far less to cover their workers here at home.

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Together, McDonald's and PepsiCo, Pizza Hut's parent, made nearly $3 billion in profits last year. Their CEOs received more than $5 million in compensation. But they claim they can't afford to contribute their fair share of the cost of health insurance for workers who barely make more than the minimum wage. They claim that a program of employer-employee shared responsibility for health insurance will force them to cut jobs. Yet the Health Care Reform Project suggests that business is booming in the countries where Pizza Hut and McDonald's insure their workers. In Japan, Pizza Hut has announced plans to more than triple the number of restaurants. In Germany, the number of Pizza Hut employees rose by a quarter between 1992 and 1993.

But you don't have to go abroad to see the holes in their argument. In Hawaii, shared responsibility has been the law for 20 years. According to their own 1991 report, McDonald's Hawaii operations had the highest sales percentage increase of any state for two years in a row. They were in the top five in profits for five years running. It's easy to see why a leading business consulting firm called Hawaii the Nation's number one small business hotspot.

I'm sure well hear some arguments from the other side. We welcome that debate. My own view is that this debate is already awash in crocodile tears. But we must not allow the debate over numbers to obscure the real issue, which is the right of every American to decent health care.

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businesses—those with fewer than 25 employees—more than half offer health insurance to their workers and contribute to the cost.

Today, we will hear from the owner of a small pizzeria who is doing all she can to help pay for insurance for her employees. Yet giants like Pizza Hut and McDonald's, with all their enormous profits, claim they can't do the same.

Even worse, Pizza Hut and McDonald's are using the profits they've earned from their American employees to campaign against any health reform bill that would make them pay their fair share for health care. Both corporations are members of the steering committee of the Healthcare Equity Action League, a group dedicated to defeating employer mandates. It's a textbook example of special interests working against American workers to keep them from getting guaranteed health care.

We are also concerned about reports of Pizza Hut's efforts to suppress the truth about their double standard for workers. Last week, the Health Care Reform Project tried to place television advertisements about Pizza Hut's health benefits. But the ads were never broadcast. According to press reports, Pizza Hut threatened the stations with a lawsuit and intimidated them into refusing the ad. A Pizza Hut spokesman claimed the ad was libelous. But when asked what part of the ad was false, he said he would have to check with his lawyers.

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Briefly, the JEC staff memo concludes that "Such claims cannot be supported by economic analysis." The reason is that prices are determined by many factors—rent, raw materials, restrictive import and retailing policies, and exchange rates. You can't attribute price differences on pizza, or any other commodity, to one factor like health care.

The JEC also turned up an interesting fact. According to their survey, the price of pizza in Canada, which has universal health coverage under a single-payer system, is lower than in the United States. This chart shows the price of pizza in Canadian and U.S. cities in U.S. dollars.

Does this mean that Pizza Hut and others are going to back a single-payer system? Obviously not. They will probably say many other factors must be taken into account. And that's exactly the point. They'll use questionable economic claims to scare people away from health reform.

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the Brookings Institution, real health care reform could reduce payroll costs by up to 7 percent in the aircraft and motor vehicle industries.

We are at a turning point in the social history of this country. The challenge before Congress is clear—do we stand with the American people, or with the special interests? Should every corporation do its part, or should some get a free ride while others pay more? It's time to give American workers the same rights that German and Japanese workers have.' It's time to make health care for all an American right too.

Memorandum From Rick McGahey, Executive Director, Joint Economic Committee to Senator Kennedy

ECONOMIC AND PRICE EFFECTS OF HEALTH CARE MANDATES

This memo discusses issues that have arisen regarding the purported economic effects of employer mandates to provide health care. In recent weeks, a variety of claims have been advanced regarding the alleged impact of existing and proposed employer health care mandates on the price and availability of goods such as convenience foods.

In response to your request, the staff of the Joint Economic Committee has prepared this memo. The body of the memo presents a detailed discussion on these issues, but the conclusions can be summarized here.

—First, any discussions of the possible economic impacts of changes in health care policy should not take place in a vacuum. The current state of health care in the United States has many negative economic impacts, on the economy as a whole, and on different business sectors, including small businesses.

—On the question of why prices for goods like pizza differ across national boundaries, several recent quotes suggest that the price difference, sometimes as much as 75 percent or more, is caused by mandatory health care coverage in different nations. Such claims cannot be supported by economic analysis.

—Price variations are due to a host of factors, including rents, which are tied to land prices and other factors; price, availability and quality of raw materials; restrictive import and retailing policies; and exchange rate variations among national currencies. For all of these reasons, differences in prices for specific goods in different countries cannot be attributed to differences in health care policies.

—For example, pizza prices reported in an informal phone survey of Pizza Hut restaurants in Canada were significantly lower than prices in the United States, even though Canada has a single-payer health care system that goes well beyond the legislation passed by the Labor Committee. Presumably, opponents of a single-payer system would argue that nothing can be inferred about the economic impact of Canadian health care policy solely by looking at the comparative prices of pizza in the U.S. and Canada. But that is exactly the point in regard to their use of German and Japanese prices in the current debate.

—Further, a narrow focus on the comparative price of specific goods obscures two other major economic problems generated by current domestic health care policies. First, some firms are "free riders" who do not provide insurance, which means that health care costs for their workers are shifted onto other firms and taxpayers. This creates economic distortions among companies and industries, and penalizes firms that share the cost of health care coverage with their workers. A requirement that each employer pay for its own workers would level the playing field and make the competition fairer.

—Second, the cost shifting which is induced by "free riders" and other factors is a major contributor to the crisis in health care costs. Without universal coverage, businesses, and small firms in particular, will continue to pay ever-higher insurance costs.

—These growing costs will lead to reductions or elimination of insurance coverage, leaving more people without insurance. This will cause more cost shifting, which will in turn continue to raise costs to firms that do provide insurance, in a negative spiral of less coverage and higher costs. Without universal coverage, partial reforms could make things worse, making health insurance more expensive while not getting costs under control.

—The basic economic problem with arguing that employer mandates will drive, up costs is the assumption that businesses, workers and consumers are somehow immune to the current crisis in health care, including rapidly rising health care

costs. In fact, however, Americans end up paying for those health care cost increases somehow—whether it's in the price of pizza, the price of health insurance, or in the prices of goods produced by companies that do provide health benefits.

—In summary, universal coverage seems essential for getting spiraling health care costs under control, and for addressing the "free rider" problems which are distorting the economic playing field and contributing to excessive health care costs, especially for small businesses. There are a variety of options for achieving universal coverage under debate in the Congress, and this memo takes no position on any specific approach. But attributing international variations in the price of goods like pizza to the existence of specific health care policies in different nations cannot be supported by economic analysis.

The remainder of this memo elaborates on these issues.

I. ECONOMIC COSTS OF THE STATUS QUO

In this year's annual report, the JEC stated that:

The most immediate structural economic problem that needs to be addressed through government action is the crisis in the nation's health care system. The current health insurance system, which is fragmented and cross-subsidized in complex ways, is not an efficient way to provide health care to all Americans. Inefficiencies in the system and inequities in its funding create distortions in labor markets and reduce workers' standard of living, all while maintaining high and rising health care costs. Without comprehensive reform, the economic distortions in the present system will continue to depress the rate of growth of the American economy, and will lower standards of living for American workers and their families.

The problems with the current system are well known. Health care spending in the United States is high and rising rapidly. One dollar out of every seven spent by Americans in 1993 was spent on health care—14.3 percent of U.S. Gross Domestic Product (GDP) compared to an average of less than 9 percent of GDP among other industrialized nations. Health care costs have increased at twice the rate of income growth and are projected to consume nearly 19 percent of national income by the year 2000.

High and rising health care costs in general have translated into high and rising insurance premiums for firms that provide health care coverage to their employees. For those firms that provide benefits, the cost of coverage per employee has more than doubled since 1987 to $3,968 in 1992. Overall, health insurance premiums as a percentage of business payrolls have been rising even faster than health spending generally. Employer-paid health costs per full time employee doubled between 1985 and 1992. On average, business costs for all forms of health care coverage grew by 8.5 percent during the 1980s after adjusting for inflation, compared to a 4.4 percent real rate of increase for U.S. health costs generally and a 3.2 percent rate for the other G-7 industrial nations.

Ultimately, it is American workers who are harmed most by rapidly rising health care costs. Most studies find that between 80 and 100 percent of business health insurance spending is ultimately paid for by workers through reduced wages (or slower wage growth). The Economic Report of the President notes that if business spending on health insurance were the same share of total compensation today as in 1975, average annual wages per employee could be as much as $1000 higher than they are now.

Lower wage growth is not the only problem caused by the current health insurance system, however. The system also distorts labor markets and provides incentives for behavior that may prove costly to society in the long run. For example, firms that provide health insurance end up subsidizing health care for the uninsured and under-insured employees of many other companies. Without a requirement for universal coverage, employers have an incentive to seek a cost advantage over competitors by not offering health insurance to all or part of their workforce. Under federal labor laws a company can restrict health insurance coverage to its more highly-skilled "permanent" employees and reduce labor costs by substituting temporary, part—time and other forms of contingent labor.

Avoiding high and unpredictable benefit costs by hiring more contingent workers, leasing employees, contracting out, relocating jobs outside the United States and other means has become common in some industries. Other labor market problems, like "job lock" and accumulating fringe benefits costs to companies, are further problems with the status quo.

Any potentially negative effects of reform must be balanced against the harm that would be done if the current system were to continue unchanged. As Dr. Marilyn Moon testified in hearings on health care held by the JEC in September 1993, " If there is no national reform, many of the problems that are helping to spur change

will likely worsen, and the patchwork response of our health care system will leave increasing gaps in protection for families."

Under the current system, neither private insurers nor the government has an effective way to limit the growth in total health care spending, and health expenditures continue to rise. Government attempts to control its own spending—for example, by limiting reimbursements to health care providers under Medicare and Medicaid—may even cause spending to rise faster in the private sector, as some costs for Medicare and Medicaid patients are shifted onto private insurance companies instead. Even while costs rise, the number of people who are uninsured also rises, and some of those with insurance nevertheless lack adequate access to care.

II. INTERNATIONAL VARIATIONS IN THE PRICE OF GOODS AND HEALTH CARE POLICY

In recent weeks, a variety of claims have been advanced regarding the alleged impact of existing and proposed employer health care mandates on the price and availability of goods such as convenience foods. How much of a burden would a requirement to provide health insurance coverage for their workers impose on fast food restaurants and similar low-wage employers?

Recent advertisements by Pizza Hut imply that health insurance mandates are the reason that a pizza that costs about $11 in the United States sells for $19 in Germany. The New York Times reported that Senator Dole stated that pizza prices in the U.S. would rise to $20 if an employer mandate passed. Similarly, Herman Cain, CEO of Godfather's Pizza, told President Clinton at a town hall meeting in April that being required to pay health benefits would either drive up pizza prices or reduce jobs.

The implication underlying all these claims about $20 pizzas is that paying for employees' health care benefits will cost fast food restaurants so much that they would have to raise the price of pizzas by 80 percent or more in order to cover their expenses. But when existing labor costs and current proposals before Congress are examined, these claims appear to be vast overstatements.

For example, David Scherb, vice president of PepsiCo (Pizza Hut's parent company) testified before the Ways and Means Committee last December that employee payrolls account for about 30 percent of Pizza Hut's total costs. The rest of the budget goes to cover things like rent, raw materials, advertising and so on. Under the health care plan recently passed by the Senate Labor and Human Resources Committee, Pizza Hut franchisees, if they qualified as small businesses, could not be required to pay more than 5.5 percent of their payroll costs for health insurance for their workers. This works out to less than 2 percent of their total costs. Even if Pizza Huts didn't qualify as small businesses, because they are owned by a large corporate parent, their health care benefit payments would be capped at 12 percent of payroll raising total costs by a maximum of 3.6 percent. On an $11 pizza, in other words, costs would increase by less than 40 cents, around 4.4 percent of the $9 price hike reportedly predicted by Senator Dole.

These commentaries also implied that employer mandates in other countries accounted for the differences in the price of pizza and other goods. Several quotes in the past week have suggested that the difference in prices, sometimes as much as 75 percent or more, can be attributed to health care coverage in different nations.

Such claims cannot be supported by economic analysis. Price variations are due to a host of factors, including rents, which in turn are tied to land prices and other factors; price, availability and quality of raw materials; restrictive import and retailing policies; and exchange rate variations among national currencies. For all of these reasons, differences in prices for specific goods in different countries cannot be attributed to differences in health care policies.

For example, it is true that Japan has mandated employer health insurance payments, and the United States does not. However, that is not the only, or most significant, difference between markets in the two countries. Other factors, like the cost of raw materials, the cost of renting stores, exchange rates, and taxes and import fees account for most of the difference in prices in Japan and the United States. After all, Germany has employer mandates too, and its pizza prices aren't nearly as high as Japan's.

The fallacy of attributing price variations to specific national health policies can be shown by looking at Canada, which has a single-payer system that goes well beyond the legislation passed by the Labor Committee. If health mandates determine the price of pizza and other goods, one might would expect that the price of pizza in Canada, a country much more like the United States than Europe or Japan, would be higher than in the United States.

But an informal telephone survey conducted earlier this week of Pizza Huts in different parts of the United States and Canada found that, even though Canada

has universal health insurance, Canadian pizzas are consistently cheaper than identical pizzas in the United States. An "$11 pizza" (in this case, a large cheese pizza) cost $11.09 (with tax) in Arlington, VA, and $12.65 in New York City—but less than $10 in Toronto, Montreal, Quebec, or Ottawa.

If one were to follow the logic that blames higher pizza costs in Europe and Japan on those nation's health care requirements, is it then a fair conclusion that a single-payer system like Canada's reduces business costs, and would be preferred by Pizza Hut and others over the current U.S. system? Presumably, opponents of employer mandates and single-payer health plans would say that you can't draw such sweeping conclusions from the price of one commodity, because there are many factors that determine prices. And that is exactly the point with regard to their use of European and Japanese prices.

III. JOBS, GROWTH, AND "FREE RIDERS"

If employers are required to provide health insurance for their employees, Pizza Hut's advertisement implies that it will cost jobs. They say, "Without mandates in the United States, Pizza Hut has created 41,000 new jobs and opened 1,700 new restaurants in the last five years."

What the ad doesn't mention is that growth in both employment and sales have been strong for Pizza Hut in Germany and Japan too, in spite of their health insurance mandates. Pizza Hut in Germany has increased its employment by more than 20 percent over the past five years, for example. Gross sales for Pizza Hut in Germany grew by 30 percent in 1993. And in Japan, Pizza Hut is reported as forecasting that it will see a 350 percent increase in the number of stores over the next five years. Pizza Hut's experience overseas demonstrates that with a good product—and equal requirements for all employers—mandates won't inhibit a company's growth.

Overseas experience with the job effects of employer mandates is consistent with the predictions of independent analysts such as the Congressional Budget Office, which states in its analysis of the President's health plan that it would have only a slight impact on employment prospects for minimum wage workers. Similarly, the respected consulting firm of Lewin-VHI found that an employer mandate with subsidies for small businesses and low-wage workers might result in the loss of less than one-tenth of one percent of all the jobs in the United States.

In fact, the lack of universal coverage in the United States creates serious economic distortions, through "free riders" who do not pay for their employees' insurance. Those costs are instead paid for by other companies, taxpayers, and consumers through cost-shifting. This puts other firms and industries at a competitive disadvantage, and feeds a negative spiral of reduced health coverage and rising insurance costs.

For example, what happens to Pizza Hut employees who get sick under the company's current policy? It turns out that about 70 percent of them have insurance anyway—paid for by other family members or their employers, not by Pizza Hut. Not providing health insurance may reduce the cost of producing pizzas a little bit, in other words, but the costs are borne somewhere else in the economy, through taxes, higher insurance premiums, higher payments by consumers, or reduced medical services and access.

If fast food restaurants and other low-wage employers don't pay their share of health insurance costs, it doesn't mean those costs just go away—somebody else ends up paying them. And in many cases, they are paid by the companies that employ the parents or spouses of Pizza Hut workers. The cost of health insurance coverage for a young woman working at Pizza Hut could show up in the price of the cars manufactured by her father or mother, for example, instead of in the price of pizza. Ultimately, cost shifting like that costs all consumers, and may even put American companies at a disadvantage relative to foreign competitors.

And what happens to low-wage employers who do want to pay their fair share of their employees' costs? Unfortunately, the current system puts them at a competitive disadvantage. If most low-wage employers rely on others to pay for their employees' health benefits, those who pay for their own will have higher costs. Allowing some employers a free ride at the expense of others not only costs consumers, it puts pressure on all low-wage employers to reduce their own benefit payments as much as possible. A requirement that each employer pay for its own workers would level the playing field and make the competition fairer.

IV. UNIVERSAL COVERAGE AND COST CONTROL

Cost-shifting and free riders also contribute to evergrowing health care costs. Without some form of universal coverage, this problem cannot be brought under control.

Why do we need mandates to participate in health insurance programs? Why not let companies offer insurance to their employees, as Pizza Hut does, and let the employees choose whether they want to buy it or not? That way, people who need insurance could get it, and people who preferred to spend their money on day care for their kids or on something else entirely could do that.

The idea of letting people choose whether or not to buy insurance sounds attractive, but it creates economic problems and makes it impossible to control overall health care costs. First, people can't always tell when they will need insurance. A young, healthy person might choose not to buy any insurance, reasoning that he won't get sick, but then might end up needing medical care. If he has no savings to pay for it, he's likely to end up receiving charity care in an emergency room somewhere. The costs of providing that charity care are then passed on to the people who do pay for insurance, raising their premiums.

A bigger problem with a system without mandates, however, is that in fact people are pretty good at guessing whether they're likely to be healthy or not. As a result, older, sicker people are likely to choose health insurance if they have a choice of company benefits, and younger, healthier ones are likely to choose something else. But if people with health problems make up the bulk of those who participate in the insurance system, insurance companies will be paying out relatively high benefits for each person paying insurance premiums. As a result, insurance premiums will have to go up.

Without universal coverage, insurance reforms such as community rating, which keeps companies from charging sick people more for their insurance or from denying coverage to people with pre-existing health problems, make this problem even worse. With that type of reform, companies are forced to spread the costs of providing care for an increasingly sick pool of insured people over all their customers, not just the ones that are sick. So rates go up for everybody when relatively healthy people choose not to buy coverage.

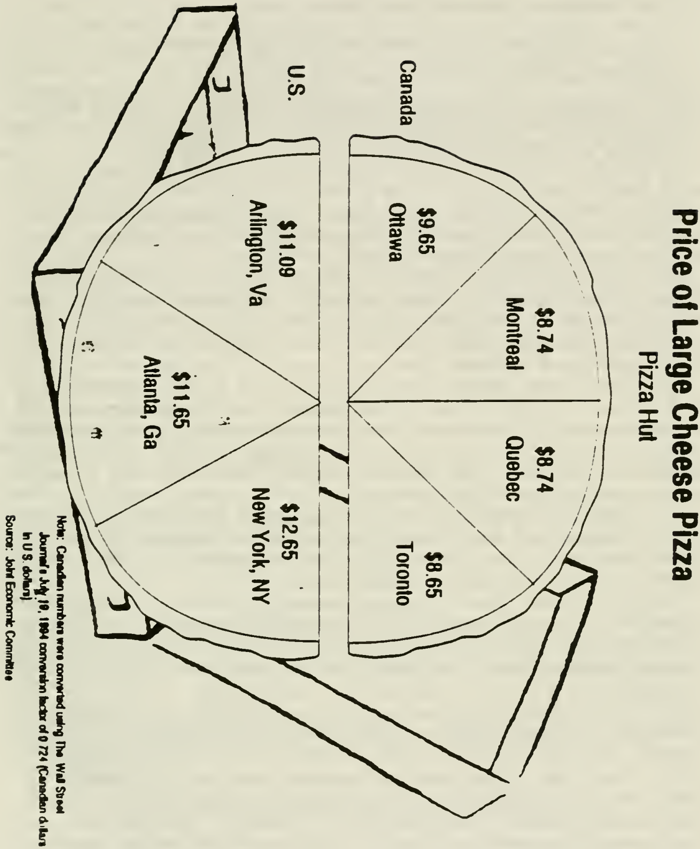
But when premiums go up, even more businesses will drop or limit coverage, and even more younger and healthier people will drop out of the system. Even those who would like to have coverage simply may not be able to afford it. And the system gets caught in a downward spiral—as more healthy people drop out, premiums rise, and as premiums rise, more healthy people drop out.

This has recently happened in the state of New York, which for the past year has required insurance companies to use community rating but has not required everyone to participate in the health insurance system. As might be expected, premiums have gone up for younger, healthier people, as insurance companies have been required to provide coverage at reasonable prices to older and sicker people. As a result, healthier people have left the insurance system—forcing companies to raise premiums some more. After only nine months of this system, 25,000 fewer people had insurance coverage in New York than did before the reforms were enacted.

Out-of -control health care cost increases hurt companies,workers and consumers. Firms that do provide health insurance for their workers have seen their premiums more than double since 1987. And the Council of Economic Advisors has calculated that if health care costs were the same share of total compensation today as they were in 1975, today's average wages could be as much as $1,000 higher than they are now.

The problem with the argument that employer mandates will drive costs up too much is that it assumes that under the current system businesses, workers and consumers are somehow unaffected by rapidly rising health care costs. In fact, however, Americans will end up paying for those health care cost increases somehow—whether it's in the price of pizza, the price of health insurance, or in the prices of goods produced by companies that do provide health benefits.

Comprehensive health reform is needed to control these rapidly rising costs, before they erode more of Americans' standards of living. And controlling health care costs could also help businesses avoid raising prices or laying off workers. Under the Clinton plan, for example, CBO has found that "Businesses' costs for health care would be substantially reduced overall." Without reform, rapidly increasing health care costs will cause much greater problems for the American economy than potential marginal increases in labor costs at firms that currently are "free riders" on the system.


Price of Large Cheese Pizza
Pizza Hut
Canada
U.S.
$9.65
Ottawa
$8.74
Montreal
$8.74
Quebec
$8.65
Toronto
$11.09
Arlington, Va
$11.65
Atlanta, Ga
$12.65
New York, NY
Note: Canadian numbers were converted using The Wall Street Journal's July 19, 1994 conversion factor of 0.724 (Canadian dollars in U.S. dollars)
Source: Joint Economic Committee

The CHAIRMAN. Senator Kassebaum.

OPENING STATEMENT OF SENATOR KASSEBAUM

Senator KASSEBAUM. Thank you, Mr. Chairman.

This morning's debate is just marking another chapter in our efforts to try to find an answer to health care reform. And certainly it marks, again, a debate regarding employer mandates.

As you know, Mr. Chairman, I support universal coverage; I support health care reform. I have not believed that the employer mandate is the solution, and I have worked to try to find an answer through other means, which is proving just as elusive, I would argue, on your side of the aisle as it is on ours.

But there are many of us who are dedicated to health care reform. This particular debate regarding employer mandates has been replayed in countless hearings and discussions, and I have not really seen any evidence that it has garnered the support of a majority of the Congress.

There are some major questions that have to be answered, and it does not mean that there is not great sincerity in trying to find some answers. It just means that there are implications regarding employer mandates that have to be thought through with a seriousness of purpose. And there is where I think the law of unintended consequences does enter in.

The particular twist given to this hearing is that because employers in Europe and other foreign countries are required to pay for health insurance for their employees, employers in the United States should be required to do so as well.

Frankly, I think that is illogical reasoning. The not so subtle implication is that multinational corporations are giving short shrift to American workers while treating their foreign workers royally. Playing to the current anti-foreigner sentiments may make a good soundbite but it does not help us find sound policy.

The United States overseas comparisons used in the study which prompted this hearing are so narrow that they miss the real point entirely, and the real point is that employer mandates cost jobs.

Mr. Chairman, if you have a business that you are running for profit, and a big business, where you have a large number of part-time workers—and I might add that Hawaii's mandate does not cover part-time workers—then, you really do have to take into consideration the consequences of decisions that you make. If one is going to look at the benefits the European employer is required to offer, one should also look at the economic costs of those benefits in terms of unemployment, higher prices—and who knows, really, what higher price it may be, whether it is $1 or whether it is $5, but there would be a higher price and a heavy tax burden in one way or another.

Why do we want to be like Europe in terms of unemployment? Where the United States rate is 6 percent, the European rate is 12 percent. Who wants to see a marginal tax rate nearing 60 percent, as is the case in Germany? Why would we want to give up world leadership in the area of private job creation, to emulate the European model, where the only job growth is in Government employment?

I believe we need to have a good understanding of what really is at stake here if we are going to move toward a mandate on private businesses to buy health insurance for their employees. Fundamentally, it means we are going to adversely affect the ability of businesses to thrive and grow.

I can certainly appreciate businesses such as the Accuardis and their offer of coverage; but it does not translate to the same type of business operation as Pizza Hut, with a large number of employees. It is a decision they made which, frankly, I think we would all salute.

But in some cases, it means that businesses really will not survive; a mandate spells the difference, I think, between a vibrant and flexible economy, which we need to have, and one which is stalled in immobility and under the weight of mandates and taxes.

What is equally illogical about both the study and the hearing is that Kansas-based Pizza Hut has been singled out for national media attention. I think it rather puzzling, Mr. Chairman, to find Pizza Hut has reached the top of the "most wanted" list of the pro-mandate movement.

The fact of the matter is that Pizza Hut has been an industry leader in trying to provide health insurance benefits for part-time workers. They came to realize this was an important part of their obligation. The plan they offer was developed in consultation with their employees, many of whom are young, on the basis of the coverage they wanted and that they felt they could afford to pay.

One positive aspect of the hearing today is that it will give Pizza Hut and others the opportunity to help set the record straight, and most importantly, I hope it will help us sort through what employer mandates will mean.

I welcome particularly Pizza Hut's chief executive officer, Allan Huston, to the hearing this morning, who has decided to come and stand up and make what I think is a good case for Pizza Hut's self-insurance plan.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. I will have more to say about Allan, welcoming him here, in just a few moments.

Senator Simon.

OPENING STATEMENT OF SENATOR SIMON

Senator SIMON. Thank you, Mr. Chairman. I regret I have not heard the earlier statements.

I start from a very simple base, that we have to protect Americans as other countries protect their citizens. I just heard Senator Kassebaum use the word "pizza." I read one head of a chain was quoted as saying it would cost 6 cents more per pizza to provide health insurance for all of their employees. I think the American people are willing to pay 6 cents more per pizza. And frankly, if his competition is giving health insurance to their people, that competition is at a disadvantage. But I think we are willing to make the small sacrifice to see that all Americans are protected. It is just that basic, and I hope the hearing today will illustrate that.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Hatch.

Opening Statement of Senator Hatch

Senator Hatch. Thank you, Mr. Chairman.

I would just like to make a few comments regarding today's hearing. First of all, as members of this committee know all too well, the issue of health care reform and specifically employer mandates consumed a significant amount of time at prior hearings and also during the markup of this committee. There is no need for me to go back and review all the arguments for or against employer mandates; we have been through them, and it is not going to make any difference in changing anybody's mind. The committee has acted.

The committee spent 3 difficult weeks debating health care reform with considerable attention focused on the merits of the employer mandate. In the end, the committee majority retained the employer mandate as part of its legislation and had one Republican vote with it; the rest of us voted against it.

I opposed the employer mandate, as the distinguished ranking member has said, because it would impose a tremendous toll on American jobs, on wages, and on the overall performance of our American economy.

I understand why the President wants mandates and why the distinguished chairman does—it is the usual easy answer, that we just add taxes to the American people, and we can solve all the problems. But we now find ourselves here today, nearly 6 weeks after the committee vote, to hear testimony on a so-called study with questionable validity, regarding the provision of health care benefits by Pizza Hut and McDonald's Corporations. Why are we singling out any companies at this particular point? To me, it is just not right.

Let me say to Mr. Huston with the Pizza Hut Corporation that I really commend you for your appearance here today. Pizza Hut has really been an outstanding corporate citizen throughout the United States. It was the first major restaurant company to provide health care benefits to all of its employee, both full- and part-time.

It is obvious that your company is being singled out for what I believe is unwarranted treatment by our committee. I think this is wrong, and I think it is unfair.

The debate over employer mandates is indeed a serious issue, and there are sincere and dedicated people, not the least of whom are members of this committee, on both sides of that issue. And it is of paramount concern to the business community, and not just to those in the business community, but to all Americans who are currently without health insurance.

However, I am not sure we should treat the issue in this particular way. In my opinion, this is not the legislative process at its best. It is not fair to the Pizza Huts of this world, and it is not fair to those individuals who have been adversely affected by a system which we all agree needs correcting. We have all got to work together to try to get it done.

It seems to me that today's hearing only serves to polarize the debate, when especially at this critical hour, we need to find consensus.

Now, I am the only Senator on all three committees that are considering health care—this committee, which is an eminent committee in this area and is certainly handling all the public health matters; the Finance Committee, which handles almost every money matter; and of course, the Judiciary Committee, which handles the fraud and even ERISA medical liability, and antitrust. And all of these are important issues.

I guess what I want to say is that I do not think we would change our economy for that of Germany's, as much as I respect them. I do not think that our people are going to pay $19 for a pizza, compared to about $13 here. And frankly, I am not sure that any good is going to come from hearings that single out two companies, when there are literally thousands of companies that may feel the same way, and for good and legitimate reasons feel the same way.

When I look at—as the distinguished ranking minority member has said—the high unemployment rates in those countries, the growth in government jobs vis-a-vis growth in the private sector, the stultification of economic realities in those areas, those would be the last places I am going to turn to to try and find solutions to our health care problems and to our economic problems in America.

I would prefer to look to people like these entrepreneurs, who basically create jobs and get people working, and then hopefully, working not only in the initial jobs that they get with McDonald's, but all the way up to where they can get jobs where they can afford to have health insurance.

We have got to face the reality that there is not enough money in the world right now to solve every problem that everybody wants solved in this particular area; so what we have to do is do the best we can. And I think it is going to take all of us working together, less confrontation, and more cooperation to solve these problems.

Mr. Chairman, I appreciate having the opportunity to make these few comments, and as always, I appreciate the debate.

The CHAIRMAN. Thank you very much, Senator Hatch.

Senator Wellstone.

OPENING STATEMENT OF SENATOR WELLSTONE

Senator WELLSTONE. Thank you, Mr. Chairman.

Let me first of all point out for the record, before I get serious maybe, that now the evidence is irreducible and irrefutable—single-payer is the way to go, if you just look at that chart on the cost of pizza in Canada.

Mr. Chairman, I think this is an extremely important hearing, and I would like to include a full statement in the record, because I will be brief, and let me also include in the record an editorial from the New York Times, from today, July 22. The opening paragraph reads: "The Pizza Hut controversy would be a small footnote to the national debate on health care if it did not make a large point: there is plenty of flim-flam and even hypocrisy in the argument advanced by many companies that employer mandates will drive their costs to intolerable levels."

[The prepared statement of Senator Wellstone and editorial follows:]

Prepared Statement of Senator Wellstone

Pizza Hut executives claim that they cannot afford to operate in an environment in which they are required to contribute to their employees' health benefits. The evidence presented in this hearing will demonstrate that this is not true—that they now very successfully operate in other countries that require all employers to help pay for their employees' health insurance. In fact, all multi-national and multi-state companies learn to operate in a variety of market and regulatory environments.

Some multi-state corporations also argue that they should be exempted from any State single-payer systems. They claim that having to deal with differing health benefits contributions in different States will make it difficult for them to operate and would create inequities. These arguments have as little merit as the argument that multi-national companies cannot afford to help pay for health insurance for their American employees as they do for their employees in foreign countries.

Multi-state firms now operate successfully despite widely differing State laws and market conditions that affect their labor costs.

Some of the benefits that employers pay for are Federal programs that are uniform across States. As Exhibit 1 shows, these include the Medicare hospital insurance tax, Social Security old age and disability insurance taxes, and federally mandated minimum wage.

Other benefits paid for by employers vary among the States. Some of these are now mandated or set by the States, including workers' compensation, unemployment insurance, and some States have minimum wage levels set above Federal requirements.

Other benefits paid for in part or entirely by employers are voluntary, such as health insurance for employees and their families, sick leave, family leave, legal holidays, and vacations. Whether a company now provides these voluntary benefits and the cost of the benefits vary markedly from one State to another because of differences in the labor markets in those States and because a company's employees may have a union contract in one State and not in another.

To illustrate how these benefits differ, I've prepared another chart that shows the differences among the States represented by the members of this committee. Exhibit 2 shows the differences among these States in the minimum wage, in the average cost of workers compensation, and in the unemployment insurance tax as a percentage of wages. In addition to these differences, employers face substantially different health insurance premium costs in each State and even in local areas within States. Inter-state differences in health care costs will remain under all the health care reform bills that are before the Congress.

In spite of these differences, thousands of companies currently operate in more than one State, employing workers and making a profit from these operations. These examples demonstrate that employers now cope—and it appears that they do so quite successfully—with a wide variety of differing regulations, required payments, and labor and other market conditions. These examples pro-

vide evidence that differences among States do not inhibit multi-State firms.

The State single-payer option is an important alternative that will enable States that choose it to provide greater choice of doctors and other caregivers to all patients, increase the benefits available and the equity of access to health services, improve the quality of care, enhance the clinical autonomy of health caregivers, and more effectively control their health care costs. It will provide great benefits for States and their residents, as well as for multi-State employers.

Exhibit 1. Multi-State Employers Now Successfully Operate with Differing Employer-Paid Benefits

Benefits uniform across states	Benefits differ among states
Social Security retirement (OAS), mandatory	State minimum wage (above federal level), mandatory
Social Security disability insurance (DI), mandatory	Workers' compensation, mandatory
Medicare Part A (HI), mandatory	Unemployment insurance, mandatory
Federal minimum wage, mandatory	Health benefits, voluntary

Exhibit 2. Minimum Wage, Workers Compensation, and Unemployment Insurance Rates, Selected States

State	Minimum Wage*	Workers Compensation average weekly insurance premium per $100 for 44 types of employers (1989)**	Unemployment Insurance as % of wages (1992)***
Connecticut	4.27	10.847	7
Illinois	federal rate	9.313	8
Indiana	federal rate	3.829	4
Iowa	4.65	6.721	3
Kansas	federal rate	5.502	9
Maryland	federal rate	7.265	7
Massachusetts	federal rate	10.239	1 7
Minnesota	federal rate	10.603	7
New Hampshire	federal rate	3.583	6
New Mexico	federal rate	11.398	8
Ohio	federal rate	12.518	1 0
Pennsylvania	federal rate	9.005	1 3
Rhode Island	4.45	10.367	1 8
South Carolina	federal rate	5.532	7
Utah	federal rate	4.448	5
Vermont*	federal rate	5.861	9

* Bureau of National Affairs

** John Burton's Workers' Compensation Monitor, Jan/Feb 1992. Average dollar premiums for combination of 44 employer classes including manufacturing, contracting, and others; adjusted for variety of market- and employer-specific factors.

*** U.S. House of Representatives, Committee on Ways and Means, *Overview of Entitlement Programs, 1993 Green Book*, Washington, DC, 1993.

The New York Times

Founded in 1851

Pizza Hut's Double Standard

The Pizza Hut controversy would be a small footnote to the national debate on health care if it did not make a large point: there is plenty of flim-flam and even hypocrisy in the argument advanced by many companies that employer mandates will drive their costs to intolerable levels.

To demonstrate that, the Health Care Reform Project — a coalition supporting President Clinton's efforts to require employers to help pay for insurance — developed a TV commercial. It showed a young man bicycling toward the nation's Capitol to deliver a pizza. It said that Pizza Hut paid for health insurance for its workers in Germany and Japan, "but for many workers in America, Pizza Hut pays no health insurance. Zero."

Pizza Hut, which does not hide its distaste for mandates, struck before the commercial aired on four Washington stations. Its lawyer wrote a letter warning that the company would regard as libelous "any statement to the effect that Pizza Hut does not offer health care coverage for its employees in the United States." The stations did not run the commercial. The fact that Pizza Hut is owned by Pepsico, one of the nation's biggest advertisers, may have had something to do with their decision, although officials at one station said they were worried about accuracy.

They should not have been. The ad says Pizza Hut does not pay for "many workers." That is true. Pizza Hut's hourly employees must pay the full costs of health insurance for six months before the company will make any contribution — and then the contribution is only for additional coverage, not the basic plan.

Pizza Hut says mandates requiring the company to cover everyone would drive prices sky-high. A pizza that costs $11 here, the company says, costs $19 in Germany; in Japan, $22. Senators Nancy Kassebaum and Bob Dole, both from Kansas, Pizza Hut's headquarters state, warn that if the U.S. adopted employer mandates like those in Germany and Japan, $11 pizzas could soar to $20.

The basic arithmetic suggests otherwise. Under a bill produced by the Senate Labor and Human Resources Committee, for example, Pizza Hut would be required to pay 12 percent of a worker's wages for insurance premiums. Pizza Hut's own figures suggest that labor accounts for 30 percent of a pizza's cost. When that figure is enlarged by 12 percent, the increase for that $11 pizza should be only 3.6 percent — or maybe 40 cents.

The Health Care Reform Project also said that McDonald's, another huge food distribution company, provides more generous health benefits to employees in countries where it is required to than it does here. It further noted that for both companies, sales in Germany and Japan have boomed.

Pizza Hut and others like it do perfectly well in countries where shared responsibility for medical care is a matter of law. Why not here?

Senator WELLSTONE. So it is not just a question of Pizza Hut, I would say to my colleague from Utah, and McDonald's. Any number of different companies are making the same argument—that they cannot operate in an economic environment where they have to contribute their share toward covering employees and toward contributing to universal health care coverage.

Mr. Chairman, I am particularly interested in this hearing because there is another argument that is made as well, which is that companies are saying that if States decide, for example, to a develop a single-payer option, they cannot operate in that environment. In fact, all multinational and multiState companies learn to operate in a variety of market and regulatory environments, which I think is very much a plus for the way in which our business community operates.

As I said, some multiState corporations have also argued that they should be exempted from any kind of single-payer system. They claim that to have to deal with different kinds of health benefits contributions in different States will make it difficult for them to operate and would create inequities.

These arguments have as little merit as the argument that multinational companies cannot afford to help pay for the health insurance for their American employees as they do for employees in other countries.

I think, Mr. Chairman, the one point that I want to make today is that I see a parallel between these arguments, and I think both can be challenged on the merits. Right now, if we were to take multi-State companies that operate in States with very different market conditions—labor market conditions, health insurance conditions, liability conditions, supply costs—and look at what is uniform across States, we would find Social Security, OAS, Social Security disability insurance, Medicare Part A, and mandatory Federal minimum wage. What differs greatly, State by State—and I will not take up everybody's time with the chart, but I would like to include it in the record—is State minimum wage, workers' compensation mandatory, unemployment insurance, health benefits voluntary.

So Mr. Chairman, I am very interested in this hearing, because I think the same argument is being made, and I simply think the evidence does not support it. We have companies that are arguing they cannot provide the same benefits for their employees in this country that they provide for employees they hire in other countries, and they cannot operate in an environment that requires them to do so—but they do well in other countries. And in addition, you have the same companies all too often arguing that they cannot operate in a State that would choose to develop a single-payer system because it would be a different kind of approach—but they operate in all kinds of different States, with all kinds of different approaches and all kinds of different markets, right now.

So I do think it is important that we get to the bottom of this, and I must say it is not just two companies. This argument is being made by any number of different companies, and this hearing is very important because it focuses in on how to finance coverage for working people. Senator Kassebaum said, we do need to focus in

on the question of how to finance coverage, and I think this is a key question.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Wellstone.

If there are no further opening comments, we welcome our first panel, which includes James and Brenda Newman, from Whitesburg, KY. Brenda was employed as a waitress in a Pizza Hut restaurant. Ms. Nellie Kincer is also from Whitesburg, KY. She worked as a cook at Kentucky Fried Chicken until 1989. Kentucky Fried Chicken is owned by PepsiCo. And Ms. Deborah Accuardi is from Portland, OR, where she owns Accuardi Old Town Pizza and pays for half of her employees' health insurance.

I would ask Ms. Newman to be good enough to lead off, and I want to say that we want to thank you very much for being here. I think for all of us here, the health issue is really not about words or bills; it is about real people, and we are trying to find out how this issue really affects your lives and to hear your own comments about the importance of health care.

So Ms. Newman, we would be glad to hear from you.

STATEMENTS OF BRENDA AND JAMES NEWMAN, WHITESBURG, KY; NELLIE KINCER, WHITESBURG, KY; AND DEBORAH ACCUARDI, ACCUARDI'S OLD TOWN PIZZA, PORTLAND, OR

Ms. NEWMAN. Thank you. My name is Brenda Newman, and I am here with my husband James. We are from Whitesburg, KY, which is in the eastern part of the State. We have both been in Kentucky all of our lives.

We appreciate the opportunity to come before the committee today. We believe health insurance is very important and feel strongly that everyone must be covered.

I first began working at Pizza Hut in March of 1988. When I took the job, I knew that it was not going to pay too much. I made $2.09 an hour plus tips. Times were hard in that part of Kentucky, and tips did not come too easy.

When I first took the job, I was not too concerned that I could not afford health insurance, because my husband was working, and I was covered through his policy at work. However, several months later, my husband was laid off unexpectedly by the coal company, and neither of us had any health insurance.

That was a very hard time for my husband and me. We went for over 8 months without health insurance, and both of us had to pay for doctor bills ourselves. Thank goodness, neither of us got too sick, but we both did have to see doctors. So we had medical bills, as everyone does, and it was hard, but we paid them all.

However, we had real money problems, and our medical bills on top of everything else were especially hurtful, because we always thought my husband's job would cover us. We used up our savings and almost lost our home. We put it up for sale, but at the last minute, we were able to keep it.

I really wanted to get insurance, and I talked to the Pizza Hut manager about what it would cost, but when she told me how much it was, I said just forget it. I could not possibly pay that much on what I was making.

Luckily, my husband did get his job back, but that only last a little while, until his company shut down completely. Once again, we did not have any insurance. I was worried that something might happen, and we would get a doctor's bill that we could not possibly pay.

I was not alone. Many of my fellow workers at Pizza Hut could not afford coverage either. While some of them were younger and were covered by their parents, some were women whose husbands were not working either. We talked at work about how we would like to have insurance, but we just could not afford it.

Finally, my husband got another job which he has kept for some time, and we are very grateful. So now we can get help with our medical bills. But everybody should be able to get insurance so they will not have the kinds of fears we did.

I hope we can show people that people who work very hard all their lives can sometimes find that they do not have insurance, and that they do not have any way to get it. I was willing to pay my fair share of insurance, but I just could not afford to pay for it all. Pizza Hut was able to pay for health insurance for the manager, but it would not pay for me or other workers. And I think that is wrong.

I have been told that Pizza Hut pays for insurance of workers in other countries, but not for American workers. I think that is wrong, too. We came to Washington because we hoped that we could help other people who might get caught without insurance.

We learned that something can happen to you when you do not expect it at all, and that if you do not have insurance, it will be a hard road to travel.

Thank you.

The CHAIRMAN. Thank you very much.

Ms. Kincer.

Ms. KINCER. My name is Nellie Kincer, and I am from Whitesburg, KY.

After 35 years of marriage, I was divorced in 1986. After my divorce, I had to look for work to support myself. I wanted to find a job that provided health insurance, because I have a heart condition and need to take medication.

When I was covered under my husband's Blue Cross/Blue Shield plan, I had some health problems and was able to see a specialist in Lexington. He was an excellent doctor, and we could afford to see him. In fact, sometimes, I think the hardest part of my divorce was losing my Blue Cross/Blue Shield. [Laughter.]

I was unable to find a job that provided health insurance, and I began working as a cook for Kentucky Fried Chicken. I was making $3.35 an hour with no retirement, no paid vacation, and most important, no health insurance.

My medication for my heart condition costs $60 a month. My ulcer drugs cost $60 a month. Working at KFC, I was only able to get about 35 to 36 hours a week. On this salary, I had to choose between my medication and buying groceries. I chose to get groceries, so I did not get the drugs. I have not seen a doctor, even though I know I should.

The other workers at KFC were in the same position I was in. One woman got insurance through her husband, but the other women did not have insurance, and were not able to afford insurance even though some of them had children. The manager of the restaurant and his family were covered by KFC, and he had no worries. But we were all worried about getting sick because we could not afford it.

In 1989, the KFC franchise closed, and I was out of work, as well as having no health insurance at all. Now, I work in a deli in a food market, but I still do not have any health insurance. I would like to get insurance if it were offered through my job, but I just cannot do it by myself.

I am not here to ask for a free ride. I am willing to pay my share for health insurance. But if I tried now to buy Blue Cross/Blue Shield insurance, it would eat up all of my money.

I am shocked and angry that KFC and other American companies would give health insurance to workers in foreign countries, but not take care of their own workers at home. I did not come here from Kentucky for a free trip. I have already been to the White House. I came because I am concerned for others who work hard and have families and do not have any health insurance. I do not think it is right that I have to choose between getting medication and putting food on the table, and I do not think anybody else should have to make that choice, either.

The CHAIRMAN. Thank you very much.

Ms. Accuardi.

Ms. ACCUARDI. My name is Accuardi, and I run Accuardi's Old Town Pizza in Portland, OR. My father-in-law opened the restaurant in 1974, and my husband and I have been running the operation since 1987.

We have approximately between 25 and 28 employees at any given time. Most of them are under 25; most are part-time, except for myself and my prep cook; and pretty much all of them are students.

We have offered health care to our employees through Kaiser Permanente since 1988. We are covered for medical, dental, and optical insurance. The pizza parlor pays for half, as do the employees. This takes up about 12 percent of our operating budget, and I feel that that is the cost of doing business. If we were able, we would pay for 100 percent. But we are a small company, and there is a lot of competition in our market. We estimate that customers pass probably eight other pizza parlors on the way to our business.

But they do still come, and we feel that is because we try to instill a sense of family both with our customers and our employees. We try to excel in our business. We offer high-quality ingredients and our family recipes to customers who, in some cases, have been coming in for 20 years. And I do have to add at this point that we only charge $8.45 for a large cheese pizza.

We also consider ourselves unique in that we do not have a very high turnover of employees. Many of them come to us as freshmen in college and leave as they graduate. I do not feel this is because of a high wage; they do start at minimum wage, which in Oregon is $4.75 an hour, and depending on their performance, they go up from there. I feel it is because of the fact that we are willing to

work around their school schedules, we do offer health care, and we care about their general well-being.

My husband and I have become very close to our employees over the years and have kept in close contact with them as they leave and go on to other career opportunities.

Until this past year, we have had between 25 to 50 percent of our employees using the health insurance. This year, we are at an all-time low of only three employees being able to use the insurance, or feeling that they want to. Also, this past winter was an all-time high of our employees being out sick. We had every employee out at least 2 days last winter. I had three employees who were out a total of 3 weeks with the flu.

I have urged employees who can qualify to sign up for the Oregon Health Plan, but many are on the borderline financially to be able to qualify for that. Their only other alternative is to go to some of the free clinics that are available in Oregon. Those clinics do not offer any preventive health care, and when the flu season hit last year, many were not able to get in because so many other people were already there.

It is my opinion that if companies were to offer full health care coverage, productivity and consistency in the workplace would be a benefit both to customers and employees, and therefore a financial benefit to the employers.

I also feel there is a moral issue. I do not know of many company owners who do not work their own health coverage into their daily budgets; they should have that same philosophy toward their employees. Any benefits I have at Accuardi's Old Town Pizza, my employees either can have or work toward. I feel that this health coverage should be considered a basic right in this country, as it is in many countries already.

Thank you.

The CHAIRMAN. Thank you very much.

I have just one question for Mr. and Mrs. Newman and Ms. Kincer. You have had coverage, and you have lost coverage. Tell us what it does to your mental state. We will hear a lot about the cost of the different provisions in the legislation, and can we afford it or not. We do not really give the attention that we should, I do not think, about what this does to people's mindsets. What does it mean to you, as a family, and what does it mean to you, Ms. Kincer, if you know that you do have health insurance versus when you do not have it?

Ms. KINCER. Well, it hurts to know that I do not have it, because once you reach 62 years old, you are going downhill instead of uphill.

The CHAIRMAN. I do not think you are going downhill at all. [Laughter.]

Ms. KINCER. So, you know, it really bothers you to lie down at night and wonder, if you did get sick and had to go to the hospital, where would the money come from. A lot of hospitals will not take you in without so much that you pay down, maybe $500, before they will take you in down home. If you get real sick, an emergency, they will take you in—but in the long run, where would I get the money to pay my hospital bill after I came out?

It does worry you, and it hurts sometimes to think that you do not have insurance and that you cannot afford it.

The CHAIRMAN. Ms. Newman.

Ms. NEWMAN. What was the question again, please?

The CHAIRMAN. How do you feel in your own mind when you have insurance, versus when you do not have it? What does it do to you in terms of your anxiety level, your concern, and your worries. Is this something that is very real to you and your husband and something that concerns you a good deal?

Ms. NEWMAN. Well, since he has been on the job he has now, I feel a lot more secure. I do not worry about the medical bills. When we had no insurance at all, when he was laid off from his job, it tears your nerves all to pieces. You cannot sleep, you cannot eat. And knowing you have got insurance makes you sleep a lot better.

The CHAIRMAN. Mr. Newman.

Mr. NEWMAN. I want to ask Senator Hatch why he is worried about $19 pizzas when there are thousands of Americans who have things like $1,600 stress tests but only make $2.09 an hour, and they are worried about paying for that. What is more important—a pizza or your health?

Senator HATCH. Well, if we do not have jobs, we do not have insurance, and the more you put pressure on the upward cost of products, the less those products sell, the more jobs are lost, the more unemployment, the less Government——

Mr. NEWMAN. But these jobs are expanding overseas from the same corporations.

Senator HATCH. That may be. All I can say is you have to be careful.

Mr. NEWMAN. Is it bad management here?

Senator HATCH. Well, I do not think they are expanding, and I do not think it is bad management, either. In fact, one of the problems I have with this hearing is that Pizza Hut has been a model corporate employee in a lot of ways.

Mr. NEWMAN. They have—that is a smoke screen.

Senator HATCH. I am saying in a lot of ways. I might just bring out one thing. Some of the Pizza Hut employees are very similar to some of our employees in the Senate who are summer interns. They do not get health insurance, either. And here is the almighty U.S. Senate. Now, maybe we should do that. I do not know. We are listening very carefully to you, because I certainly have a lot of empathy and sympathy for you. But is mandates the way to get there, or is it better to do it through some other means; I think other means are better. Is it better to do it with an almighty Federal Government setting the health benefit package and determining all these things for us, or is it better to try to encourage business to increase and progress and create more jobs and more economic prosperity and more opportunity and more health care? I prefer the latter myself.

The CHAIRMAN. If we could come back to Ms. Accuardi, as I understand it, you have the same insurance program as your employees.

Ms. ACCUARDI. Yes. I pay half myself, personally, as well.

The CHAIRMAN. So there is no difference between you, the proprietors, you and your husband, and the full-time and the part-time, in terms of the shared responsibility?

Ms. ACCUARDI. That is right. It is all the same.

The CHAIRMAN. And as I understand it, you have seen a shift in recent times, that the number of those who are taking advantage of the coverage has actually dropped off.

Ms. ACCUARDI. Yes.

The CHAIRMAN. And you also pointed out there were large numbers who were sick over this last winter. Can you tell us if that is correlated, in your own mind?

Ms. ACCUARDI. I feel it is, yes.

The CHAIRMAN. What is the correlation.

Ms. ACCUARDI. Well, the reason that our employees have chosen not to, or in a lot of cases have dropped their health insurance, is because of the rising cost of health insurance. It goes up for us each year, and in the last 3 years, it has gone up about $10 a month. A lot of our students are art students, and so they have to decide which is more important.

This past winter, very few of my employees were able to go in for preventive care, check-ups, or flu shots before they started getting sick, and being at their age, they feel that they are not going to get sick and that they have many years to go before they need to be worrying so much about health care. And once you do start either to get the flu, or are around people who do have it, it is too late to get the flu shot. So without the advice of a physician, they did not realize until it was too late.

The CHAIRMAN. And the company is still able to make a profit.

Ms. ACCUARDI. Yes, we do.

The CHAIRMAN. No further questions.

Senator Kassebaum.

Senator KASSEBAUM. First, Ms. Accuardi, I do salute what you are undertaking to do. I think it shows extraordinary caring and good business leadership.

I think it is different when, as a small, independent business, you have made that decision. I would argue that while I would wish other businesses would follow the same policy that you do, businesses differ in their capacity to do so.

I really have a problem with us mandating benefits from here, because I think there are different circumstances and ones we do not fully understand. But I clearly believe—what the numbers might be, I am not sure—but there would be lost jobs, there would be changes in the way that a large corporate entity would handle its part-time employees, probably leaving more full-time and fewer part-time, potentially. The marketplace and the workplace are changing so today that I think as soon as we set up a structure here, it could well be adversely affecting businesses.

And Ms. Kincer, just to clarify, while it is owned by PepsiCo, the place you worked is an independent franchise, is it not?

Ms. KINCER. Yes, it is.

Senator KASSEBAUM. And it closed in 1992, is that right, because it was unprofitable?

Ms. KINCER. Yes.

Senator KASSEBAUM. Now, it is unfortunate, and for whatever reasons it may be have been unprofitable, a lot of people are left without the security of having health insurance. When there was enormous downsizing in jobs, I think it was health benefits that people thought of first. That is what we are trying to find here, a solution that is going to work without causing such disruption, in the work force and in the marketplace that we could well lose jobs. I think that would be a greater loss in some instances than trying to find an answer to ensuring everyone has health care coverage.

Ms. ACCUARDI. If I could say something, in Oregon, the Governor has instituted the Oregon Health Plan, which is helping a lot of people. I have not heard—it has not gone into full effect yet and how Oregon businesses will be helping to pay for that—but I have not heard a lot of complaints, and I have not heard people talking about downsizing.

I think it really is a moral issue. You say that I am unique, but I do not feel I am. I see that my business may be on a small scale, but there is no reason why a large corporation could not do the same thing. If their profit margin is high, I do not really feel that their profit margin needs to be that high. We have a very low profit margin, but we still make a living, and a lot of our people in our business making a living from that as well.

So I totally agree with there being a Government mandate, and I am a businesswoman.

Senator KASSEBAUM. Well, everybody is watching the Oregon Plan. As you say, it is not fully implemented, and I think it just started 2 years ago. But there are also areas of the State of Oregon that have been very hard-hit by the lumber industry downturn and so forth. So a lot of people have lost jobs there, and they have probably lost health benefits as well.

There is not an answer that we have found that is a magic bullet in all of this, and that is what this debate is all about.

Ms. Newman.

Ms. NEWMAN. What I do not understand is if this lady over here, Ms. Accuardi, can afford to have insurance on her employees, I do not see why in the world a big corporation like Pizza Hut or McDonald's cannot have the same thing.

Senator KASSEBAUM. Well, Pizza Hut of course does offer it now—it was after you left.

Ms. NEWMAN. Well, the point is, they had insurance when I was there, but I had to ask about it myself, and my boss lady told me to forget it because I could not afford it. She told me that I could not afford it myself. And when she told me how much it was, I agreed with her, and I said, "Just do not even bother getting the papers."

Senator KASSEBAUM. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Simon.

Senator SIMON. Thank you, Mr. Chairman, and I thank all of you for your testimony.

Let me add—and I heard an expression of sympathy for your situation, Ms. Kincer—that I think we have to give you more than sympathy. I think we have to protect you. And if Germany can protect its citizens, and France can protect its citizens, and Great Brit-

ain can protect its citizens, and Canada can protect its citizens, I think we ought to be able, in this great, rich country, to protect our citizens.

And Ms. Accuardi, if I lived in Portland, OR, I would be buying pizza from you, let me tell you. I think what you are doing is great. And I think you are correct—it is a moral issue. It also is good business.

You mentioned that you have lower turnover as well. I just think what you are doing is great.

Mr. Newman, I enjoyed your exchange with Senator Hatch. I would like to have you as a member of the U.S. Senate, Mr. Newman.

Ms. Kincer, if I may ask you this. I just did a little rough calculating. At $3.35 an hour, which is what you were getting at Kentucky Fried Chicken——

Ms. KINCER. That is what the minimum wage was back then.

Senator SIMON. That is correct. And it is kind of interesting that the minimum wage has since gone up 90 cents an hour, up to $4.25—it has gone up twice since then. What the bill that came out of our committee says is that if you are paid the minimum wage, and you and—how many people worked at Kentucky Fried Chicken when you were there?

Ms. KINCER. Around 15 or 20.

Senator SIMON. OK. Well, I do not remember the statistics, but for from one to six employees, you would pay one percent of salary. That would be about 4 cents an hour. For six to 11 employees, you would pay 2 percent of salary, or about 8½ cents an hour.

The CHAIRMAN. It works out to 25 cents a day for a minimum wage worker.

Senator SIMON. Twenty-five cents a day. To say that this is going to be a disaster—it is very interesting—we are talking about something that would cost a fraction of the increase in the minimum wage. And we have now had 30 studies showing that—and we heard that all of these horrible things were going to happen when we increased the minimum wage—we now have 30 studies showing that it did not result in those horrible things. Now, there was some job-shifting, but there was no overall loss.

And finally, just to reiterate, you make roughly how much per month total now, Ms. Kincer?

Ms. KINCER. I take home around $420 to $430 a month.

Senator SIMON. And how much do you have to pay for rent?

Ms. KINCER. Sixty-five dollars a month.

Senator SIMON. And you have to buy groceries, and some clothes, and some other things, but you should be paying $60 a month for your heart medicine?

Ms. KINCER. That is true, but I cannot afford it.

Senator SIMON. So you are just not getting that heart medicine.

Ms. KINCER. That is right.

Senator SIMON. And you should be paying $60 a month for ulcer medicine, and you cannot afford that.

Ms. KINCER. You see, when I had Blue Cross and Blue Shield, I just had to pay $5 for each prescription. So that is what hurt, then, when I lost my insurance and could not afford it.

Senator SIMON. And from the viewpoint of someone who wants a stable work force—you are working at a deli now, as I recall——

Ms. KINCER. Yes.

Senator SIMON [continuing]. Now, if you had a chance to work at another deli that offered you health insurance, what would you do?

Ms. KINCER. Now, say that again.

Senator SIMON. If you had a chance to work for another deli, and that deli offered you the same wage, but offered you health insurance, too, would you take that other job?

Ms. KINCER. I probably would take that offer, because that would give me more security that I would have the insurance if I needed to go to the doctor or had to go to the hospital.

Senator SIMON. And you could get the heart medicine that you need.

Ms. KINCER. And I could get my medicine, yes. It is a worry that people who have insurance do not really realize. Now, I was in ICU four or five times for my heart during the time that I had my Blue Cross and Blue Shield. Well, if I have to do that now, I do not know where the money would come from.

Senator SIMON. Well, I thank you. I thank you all very, very much.

Thank you, Mr. Chairman.

Ms. NEWMAN. Right now, I am on four different kinds of medication. If my husband lost his job now, I would be hurting. One is for a hernia, and the other one is for high blood pressure; and they are both real expensive. As it is right now, I only pay $5 a bottle on mine, too. But if we lost the insurance, I would not be able to get it.

The CHAIRMAN. Well, if I could just take 1 minute on the chair's prerogative, it is the hardworking men and women of this country, the backbone of this country, who are being put in this kind of fear because of their own health needs. I think this is the real reason why we cannot fail in terms of dealing with this issue.

Senator Hatch.

Senator HATCH. Thank you, Mr. Chairman.

Ms. Kincer, I have to say that I am dedicated to finding some way of solving these problems. I think you should have your heart medication and your ulcer medication. The question is how we do it, and what is the beset way to do it.

It is not that anyone up here does not want people to be covered or does not want people to have the health care that they need. It is a question of just how do we do it. And frankly, I am dedicated to trying to resolve it.

And Mr. and Mrs. Newman, we are pleased that you do have insurance now. I think that is a good thing for you, and we are happy for you. You have a better job, and you have insurance. So we are happy for you.

In the case of Ms. Accuardi, I commend you for doing what you are doing. Could I ask you what your health care costs per year, or monthly, per individual?

Ms. ACCUARDI. It is $81 for the employee, and then it is $5 any time you go to the hospital. We have had employees who have had babies for $5.

Senator HATCH. So it is about $162 for employer/employee cost per month.

Ms. ACCUARDI. Yes.

Senator HATCH. And that is with Kaiser Permanente?

Ms. ACCUARDI. Yes.

Senator HATCH. I see. Now, as I understand it, when Pizza Hut offered health insurance to its part-time employees, who comprise 95 percent of their payroll, less than 10 percent signed up; 70 percent said they already had coverage from parents, spouses, or schools; 10 percent said they did not need insurance; and 10 percent just were not interested. So that may be part of the problem, too. It seems to parallel a little bit what you are saying, except that you do pay 50 percent of the cost.

Ms. ACCUARDI. I think as long as they offer 50 percent, they are doing all they can. If the employees do not take it, then they are still doing as much as they can.

Senator HATCH. Sure; that is right.

I do not know much about this group, the Health Care Reform Project, other than that their report looks very political to me. One of their claims is that the real story is that Pizza Hut is expanding rapidly in Germany and in Japan, where they pay for health insurance and sell lots of pizzas at the same time.

Well, the real story is that Pizza Hut has been struggling to create business and to grow its business in those countries, and because mandated taxes for health care, among other things, have been one of the major contributors to the high cost of doing business, and have certainly limited its growth.

For example, Pizza Hut has only 66 restaurants in Germany, and they have——

Ms. ACCUARDI. I have to say, as a competitor, that they are going into foreign countries that have restaurants that offer high-quality agreements, and that is an issue for that kind of a company.

Senator HATCH. That may be, but the point is they have 66 in Germany, they have 64 in Japan, and we have more Pizza Huts than that right here in Washington, DC., all along. In the past 5 years, it has built fewer than 50 restaurants in both countries combined together, compared with 1,700 new restaurants here. And when they build those restaurants, they not only hire additional people, but construction occurs, real property transactions occur, and literally, millions of people across the country directly and indirectly benefit from what happens.

But it is because of high labor costs, which have driven up the price of pizza in Germany, that the company has had to concentrate its units in high-traffic areas, and as I understand it, they are selling the pizza by the slice.

Now, it may be that they should not have gone into Germany to begin with; maybe it was a mistake. But what I am saying is that this report is certainly misleading, and it was apparently done just to bolster the idea that we should have mandates.

Now, you agree with mandates; a lot of us disagree. And I have to tell you I do not believe mandates are going to be part of any health care bill that comes through the Congress, because the majority of Congress just do not want mandates. That bird just is not going to fly, as far as I see it, and one of the reasons it will not

is because of what is happening in Germany, Japan, and other countries where they are pricing themselves to the point where these jobs are going.

You could go through a whole variety of reasons why using Germany and Japan and other foreign nations is not really applicable here. But to make a long story short, I do not think there is anybody on this committee who is not dedicated to trying to solve this problem, but we have a wide variety of viewpoints, from Senator Wellstone's viewpoint of single-payer, to others who do not want Government involved at all—so from total Government involvement to not very much Government involvement. And I think we are going to have to have some Government involvement, but I would like a lot less than what some of my colleagues on this committee would like, because I think you get the Government involved as the Clinton program would do, and the costs are going to escalate so badly that it will not be just a few pennies for pizza; it is going to be just an arm and a leg to all of us. And once that system is laid in place, we are never going to get out of it.

So we have got to make the right choices now, and it cannot be done on false reports, as I have read this, "Do As We Say, Not As We Do," this special hit job here of the Health Care Reform Project. That is not helpful. You folks have been helpful here today, and we appreciate that.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Wellstone.

Senator WELLSTONE. Thank you, Mr. Chairman.

For the sake of brevity, I will resist the debate about Government, since I do not think that is quite the description of the way single-payer works; we will forget about that. I will resist the debate about other countries and economic performance and when they adopted universal health care coverage and how that all fits in, and I will just say a couple of quick things.

One, I have to say to the Newmans and to Ms. Kincer that since my wife is not here today, because her mother is very ill, I have to tell you that she would be so proud. My wife's name is Sheila Eisen—Harding Eisen, who lives in Whitesburg, of "Kingdom Come Holler"——

Ms. KINCER. I where it is.

Senator WELLSTONE [continuing]. But in any case, please say hello to Tom and Pat Gish at the paper.

Ms. KINCER. I know them.

Senator WELLSTONE. And I am going to write a letter to the editor, saying you really did that community proud by being here, and I have to tell Sheila. There are a lot of Eisens, am I correct, in that area?

Ms. KINCER. Yes.

Senator WELLSTONE. In any case, I am really glad that you are here, and I think that what you have said is very powerful and very important.

I would just make two points or observations. One, Mr. Chairman, there is just some kind of irony, at least in my mind, about what we have been hearing today. Now, all of a sudden, we have a flip-flop—it is not the small business that cannot afford to provide some coverage; it is the large companies—McDonald's and

Pizza Hut and others cannot afford to do it. I just find that, on the face of it, to be almost not credible. That is my first point. That is not a question.

The second thing I want to say to Ms. Accuardi is that I really appreciate what you have been doing. I guess Senator Simon is right, that this all ties together. I think when employees feel like you care about them, there is higher morale, and obviously, in your case—I was a college teacher for 20 years—you have stayed in close touch, and probably generations of students have become friends and so on. The only thing I would say is that—we are talking about health precedent—you said that you believe your employees ought to have just as good benefits as you have.

It would be interesting to compare the CEO of Pizza Hut and his benefits with those of his employee to see whether that principle applies.

And I will tell you that here in the Senate, I am getting ready to go forward with an amendment—it is coming sometime, relatively soon—that says, with a vote, that whatever health care plan we pass, people in this country have as good health care provided for them as we have in our plan. I think you are right on the mark with that. That needs to come to the floor fairly soon.

Thank you, Mr. Chairman.

Senator KASSEBAUM. Mr. Chairman.

The CHAIRMAN. Yes?

Senator KASSEBAUM. One of the things we have debated here, too, is what comprises a benefit package. And Ms. Newman, I was interested that you said you could not afford what the Pizza Hut plan was. How much was that per month; do you know?

Ms. NEWMAN. It was around $200 a month. That is what my manager told me.

Senator KASSEBAUM. Well, it is my understanding that for part-time workers, it is $44 a month.

Ms. NEWMAN. I was full-time, and that is what she told me. That is all I know.

Senator KASSEBAUM. That is a big jump.

Ms. NEWMAN. I never did get offered a policy. I had to ask her about it. And that is what she told me.

Senator KASSEBAUM. Well, that would be something it seems to me we ought to check out, because again, it probably is a more minimal plan that what you offer, Ms. Accuardi, to which employees contribute $81. Would it not have been probably just as difficult, Ms. Newman, for you to participate?

Ms. ACCUARDI. I want to add on that, though, that we did research other plans, and we do every year, to see if there is something that is less; and while many plans do have less of a cost each month, in most cases, the employee would have to pay 20 percent when they go to the doctor or to the hospital. In our case, they only have to pay $5 no matter what they do.

Senator KASSEBAUM. Oh, I think you have got a very good plan——

Ms. ACCUARDI. But I am saying that when you say $44 a month is low for Pizza Hut, I am curious what the rest of their package is.

Senator KASSEBAUM. Well, it is probably a much more minimal package that you offer. I do not question that, but that is where you get into some of these cost differentials, and some of your part-time workers, as you said, would find it difficult and make the choice that they do not want to contribute.

So these are decisions that one faces, and if we had the employer mandate as it was proposed, 80 percent would be the employer participation, and 20 percent the employee. And then, of course, we get plans where there would be one basic basket of benefits which becomes fairly extensive, and that can become costly.

It is easy to say we wish we had an answer for everyone, but it is not always as easy to put it into legislative language and make it work right. That is why I think it is important for us to understand what we have to decide here, as far as what should be included in a basket of benefits—how costly will it be, and if it is a mandate and the employer puts in 80 percent, the employee 20, what is that cost going to be.

So I think it helps us to go through this. Maybe both sides will better understand some of the dilemmas that we have to sort through.

Thank you, Mr. Chairman.

The CHAIRMAN. The point is that you are paying $80, and as a member of the U.S. Senate, I pay $101 for myself and my family, which includes my wife and my children. Not a bad deal.

Ms. ACCUARDI. That is a very good deal. It is $200-something for a family on our plan.

The CHAIRMAN. And my employer pays the rest, which happens to be the taxpayers.

And the fact is, Ms. Newman, at Pizza Hut, you would have to pay the full premium for the period of the 6 months before they would kick in.

Ms. NEWMAN. Right.

The CHAIRMAN. That is a wonderful deal—and you were making minimum wage, is that correct? What were you making per hour?

Ms. NEWMAN. Two dollars and nine cents.

The CHAIRMAN. Two dollars and nine cents an hour. And they tell you that you have to pay in full before you can become eligible for it. That is really a wonderful cost-sharing. They do not in Germany, they do not in Japan, they do not in Europe. They treat their workers differently over there because they are complying with the law. And we enter will get into their expansion and what they have done, and yet they say they have no profits. They have had record profits; Pizza Hut has, PepsiCo has. We are talking in terms of billions of dollars, and then we are talking about $2.05 an hour and sharing. This poses the issue very clearly.

Well, we will have a chance enter to get into the other issues. I want to just thank you all very much for joining us today.

May I ask you, Mr. Newman, what is your employment now?

Mr. NEWMAN. It is a coal company.

The CHAIRMAN. Very good. Well, we appreciate the fact that they gave you the time off today.

Mr. NEWMAN. They went into shock when I told them where I was going.

The CHAIRMAN. Did you mention Kennedy, or did you mention Senator Kassebaum? [Laughter.] Well, the Mine Workers may appreciate it.

Senator SIMON. Mr. Chairman, if I could just add one comment, because I think what Ms. Accuardi has done is to cut through a lot of this. We get so bogged down in all the details of this, and we heard not from a theologian, not from a political leader, not from a political scientist—but we heard from someone who runs a pizza parlor in Portland, OR that this is a moral issue. You are right, and we ought to listen to you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you all very much. We hope you will stay for the rest of the hearing.

The CHAIRMAN. I want to express my thanks to Mr. Allan Huston, the president and chief executive officer of Pizza Hut, for his willingness to come here from Wichita to appear before the committee this morning and defend his company's policy.

Mr. Huston and I may not agree on the issue, but I admire his stand-up quality in coming here. I am not sure his compensation includes additional pay for hazardous duty, but I think he deserves it, and Senator Kassebaum thinks so, too.

We also invited Michael Quinlan, the CEO of McDonald's, to appear this morning. I regret he chose not to do so. We set a place for him, anyway, with things he should recognize. Since the two corporations' policies are generally the same, I guess Pizza Hut will be in the unusual position of defending McDonald's as well, and I give Mr. Huston credit for that as well.

We thank you very much, Mr. Huston, for coming today. Senator Kassebaum has been speaking with us constantly about your organization, as well as have others, and we are pleased to have you here.

STATEMENT OF ALLAN HUSTON, PRESIDENT AND CEO, PIZZA HUT, INC, WICHITA, KS

Mr. HUSTON. Thank you very much, Senator. I appreciate the opportunity to be here. I would like to read a statement first, Senator, if I might.

The CHAIRMAN. Yes, fine.

Mr. HUSTON. My name is Allan Huston, and I am privileged to be serving as Pizza Hut's president and chief executive officer for our worldwide operations.

Pizza Hut was born in Wichita, KS in 1958, and we continue to headquartered in our home town. I really appreciate the opportunity to appear before the Committee on Labor and Human Resources, and I sincerely hope we are all here to productively discuss health care reform in general and mandates in particular.

Today, there are over 10,000 Pizza Huts in 87 countries worldwide. Total employment in the Pizza Hut system exceeds 235,000 workers. In the United States, the Pizza Hut system employs 195,000 people, 95 percent of whom are part-time, younger-type workers.

In the last 5 years, we have opened 1,700 new restaurants and created 41,000 new jobs in this country.

Pizza Hut has the Nation's largest employment program for people with disabilities, which is called Jobs Plus. Through this program, we employ over 3,000 disabled people. Through these efforts, we have been privileged with the receipt of scores of employer-of-the-year awards.

We also operate the Nation's largest reading incentive program, which is called BOOK IT. Children are given free pizza for reading books. The kids love it, and this year, we will have 18 million of them enrolled in the program. Our efforts in this area have also led to numerous awards, including the President's 1986 Private Sector Initiative Award and the 1989 Family Circle Leaders of Readers Award.

Both the company and our franchises participate in community-based educational and recreational programs all over this country, from Little League baseball to police department basketball programs for gang members.

Through our Harvest Program, we feed the needy and help to feed those who are victims of natural disasters like Hurricane Andrew.

We have built our business on the fun of sharing a piping hot pizza with friends and family. It has really come as a shock to all of us that overnight we were somehow transformed from a pizza baker to a target in a national political debate.

Seemingly out of nowhere, a group called the Health Care Reform Project launched a campaign against us including derogatory television ads and plans to disrupt our business with pickets.

Accusations have been made about Pizza Hut that have created an overcharged and adversarial atmosphere that is not only unfamiliar to us, but in the end, and I fear more importantly, extinguishes any meaningful dialogue.

Words like "duplicity" and "hypocrisy" have been tossed at us. And as I said, we are from Kansas, and in Kansas those are pretty strong words.

Now, I appreciate the time to set the record straight about Pizza Hut's health care plans and our view of mandates, both employer and employee. Pizza Hut was the first major restaurant company to make health care available to all of our employees, both part-time as well as full-time.

A majority of our employees are part-time workers, many of whom are young people who recently joined the work force. In fact, the average age of our employee population is 25 years old. They typically work for us for a limited time, with a very specific goal in mind like paying for their education, buying a car, or some special purchase that they would like to make.

Our health care programs are tailored to meet the unique needs of our work force. In fact, before putting into place our health care plan for part-time workers, we polled them and used focus groups to find out what kind of health care they wanted and needed.

Under the plan we have put in place for our part-time workers, they pay the cost of their health insurance for the first 6 months of their employment, after which we contribute to the plan to supplement their benefits. The average cost for a single employee to participate is approximately $11 a week.

Now, health care is not the only benefit that we provide for our part-time workers. For instance, we also provide a student loan service, child care discounts, a discount shopping network, a retirement plan, and paid vacations. And finally, if they stay with us for 1 year and accumulate 1,500 hours, they participate in the PepsiCo stock option program, which is a program that is unique in all American industry.

Now, the recent debate has become confusing to all of us. I have even heard that Pizza Hut opposes health care reform. That is untrue. We support reforms that will enhance competition, such as voluntary purchasing alliances and other reforms that will contain costs, such as tort reform and the abolishment of unnecessary paperwork.

I also believe Congress needs to address the issues of portability and exemptions of preexisting conditions. From a businessman's perspective, it makes sense to address these fundamental changes to enhance the world's best health care system without risking unintended consequences of more radical changes.

I think mandates, both employer and employee, are wrong for America. My opinion is based on experience. I have seen the effects of mandates on Pizza Hut's business in international markets. My view is anchored on actual experience in a number of foreign markets. From what I have seen of the mandates in Europe and elsewhere, they contribute to the descending economic spiral of higher prices and, ultimately, higher unemployment.

Now, of course, mandated health care alone is not solely responsible for the higher prices and increased unemployment, but it is most certainly a contributing factor. And although I have real questions about the efficiency of the mandate-driven health care systems in countries like Japan and Germany, I will leave that discussion to others.

In markets with burdensome social costs, Pizza Hut has been unable to develop the kind of business that generates the new jobs and opportunities that we have enjoyed here in the United States. Despite the burdensome costs of Germany and Japan, have we been successful? Contrary to some of the misleading information published by the Health Care Reform Project, the answer is no. Our operation in Germany, with only 65 restaurants, despite increased revenues, has been unprofitable in 10 of the last 11 years.

Our franchisee in Japan has yet to make a return on investment, even though Pizza Huts in Japan actually average over $1 million in sales per year.

Our experience is that the high cost of mandates contributes to higher prices, lower profits, unemployment, and eventually stifles investment. Germany is an excellent example of what I would call stifled investment. With 85 million Germans, we still, after 11 years, operate only 65 restaurants. If we were as penetrated in Germany as we are here in the United States, we would have about 2,500 restaurants, employing some 50,000 people.

With records like that overseas, why would we believe mandates would succeed here in the United States?

Let us look at how mandates might affect Pizza Hut in the United States. Some people say we can simply raise prices to cover the

increased cost of mandated health care. Unfortunately, our experience demonstrates that it is not quite that easy.

In a recent article on the effect of mandates, the authors pointed out that purchased meals have a high elasticity of demand, which means that for each percentage point of increase in price, consumers will decrease their purchase of meals away from home by some 2.3 percent. Therefore, a price increase of 5 percent would result in an 11.5 percent decrease in consumer traffic in our restaurants.

Let us take a look at an actual example of Pizza Hut elasticity. I brought this particular chart which shows the last time we took a price increase, several years ago. We saw an equivalent traffic decrease. As you can see, our traffic was running about eight-tenths positive on a year over year basis, and as we increased our prices—basically, we took almost a one percent price increase—you can see how our traffic dipped by that same one percent. So in this particular case, the price elasticity of demand was almost one-for-one; we took a one percent price increase, we saw a one percent traffic decrease. So we netted out on the negative side of that particular equation.

What it means to us is that less traffic means less sales, and declining sales invariably lead to fewer jobs.

Now, a similar myth is that we can somehow magically absorb the cost increase. Some people claim that the 1991 minimum wage increases had no effect on our business. That was not true for us. In fact, it led to a staffing decrease that was equivalent to the loss of 16,500 jobs.

I would like to point to this little chart to demonstrate that. What we have done is prior to the increase in minimum wage which occurred in 1990 and 1991 in two stages, we actually had an equivalent number of people per unit of about 28.3 people. That equated to 482 crew hours per week per restaurant. Now, in 1994, we are actually running the equivalent of 25 people per unit, and that is 426 crew hours. That is a decrease of some 54 hours, or an equivalent of 3.3 people. At times, at our 5,000 company-owned restaurants, we actually saw an equivalent decrease of some 16,500 jobs.

With increased costs due to mandates, we would be left with a rather unpleasant choice—either raise prices, which would lead to a fall-off in sales and eventually lost jobs, or eliminate jobs at the start. Neither choice is palatable to us.

At Pizza Hut, as well as any other business, cost structures are the linchpin of our success. Nothing is more certain to destroy a viable business than runaway cost escalations. The cost of President Clinton's plan worries me. Predicted and actual costs sometimes do not match up.

For instance, Medicare in 1966 was predicted to cost just $12 billion in 1990, and we all know that the actual cost is around $107 billion. And with the viability of our health system at risk, I am really concerned that the cost of mandates, like the cost of Medicare, could be seriously underestimated.

In closing, I am proud that Pizza Hut in the last 5 years has developed 1,700 new restaurants here in the United States and created 41,000 new jobs. Frankly, until last Friday, I thought we were a good corporate citizen, serving our community not only with the

world's favorite pizza, but with a variety of civic-minded programs that I referenced earlier.

Perhaps most surprising to us was the fact that we were subjected to attack about health care by a group we do not know, in an area where we have been an industry leader. We have been unfairly singled out for criticism for one reason and for one reason only: We disagree with certain pressure groups on the mandate issue.

It is time that we really all turn our attention to those issues, and as Senator Kassebaum so aptly put, we think it is time to seek solutions rather than villains.

Thank you very much.

The CHAIRMAN. Thank you.

Senator KASSEBAUM. Mr. Chairman, if I may just comment, I think President Clinton would hate to see that hamburger and fries go to waste. [Laughter.]

The CHAIRMAN. He is not the only one. [Laughter.] Vicky would not let me have those.

Thank you very much, Mr. Huston. We will follow 12-minute rounds, and I will ask staff to keep track of the time.

Without spending a great deal of time on the financial situation of Pizza Hut, the fact of the matter is that profits since 1987 have gone up some 370 percent, and as I understand, even in Germany, with a mandate, from 1987 to 1989, the number of restaurants increased from 14 to 46, and is projected to be 80 this year; revenues exceed $39 million in 1991, a 38 percent increase from 1989; the number of employees increased by 24 percent between 1992 and 1993.

I think any objective review of the expansion of Pizza Hut, certainly in Germany, and I think the numbers are reasonably similar in Japan, would reflect that Pizza Hut is still in an expansive mode in both of those situations.

Pizza Hut plans expansion in Japan from their current 16 store to 150 in the next 5 years.

I want to cover just three areas. I know there are a good deal of questions about mandates——

Mr. HUSTON. Senator, could I comment about that?

The CHAIRMAN. Yes.

Mr. HUSTON. I think the thing to note is that revenues do not equal profits; and while we have continued to invest in both Germany and our franchisee continues to invest in Japan, it is clear that unless we turn around the profit situation, that expansion will not continue, and the creation of jobs will clearly not continue.

So I think it is very important that we all really reflect upon the difference between revenues and profits, because profits are very important for businesses. The profits have to get a reasonable return for the invested capital that you put in, because if you do not get a return for the invested capital, you do not continue to invest.

The CHAIRMAN. Well, you are the businessman, and I understand what you are saying, but when you have that kind of an expansion in terms of investment in Germany and Japan over the period of the next years, it is difficult not to assume that you are expecting to have a significant financial advantage for your own company.

But let me get to the main question that I think we would all like to talk about, and that is the Pizza Hut ad. As you are aware, your spokesman seemed to base the allegation of libel on confusion about whether Pizza Hut made health insurance available, or whether Pizza Hut paid for health insurance for many of its workers.

I read the ad, and it is very clear, and I quote: "For many workers in America, Pizza Hut pays no health insurance." This is a true statement, is it not?

Mr. HUSTON. Yes, that is true. But Senator, if you would look at it from our perspective, when we were first made aware of this—and we were not made aware of it by anybody else but by a station that called us up and said someone is attempting to put this particular ad in—at that particular time, the transcript that was read to us said that we offer no insurance to any Pizza Hut employee. And obviously, that is an incorrect statement, and that is what we took offense do.

The CHAIRMAN. Well, we will have someone else who can comment on it, but I was under no impression—I know there have been spokesmen who have represented that, but I did not understand that to be the situation.

You have, therefore, the script that is before you in terms of the Pizza Hut ad. Do you find that there is anything libelous in that?

Mr. HUSTON. I do not know that I have——

The CHAIRMAN. Well, let me read it. It says: "You see, Pizza Hut pays health insurance for their workers in Japan and Germany"—we know that to be so—"but for many workers in America, Pizza Hut pays no insurance." Is that so?

Mr. HUSTON. That is correct.

The CHAIRMAN. "Pizza Hut makes $370 million in profits while stiffing American workers. Now they are lobbying Congress to defeat the health insurance at work." Is that so?

Mr. HUSTON. No, that is not so. We are not lobbying——

The CHAIRMAN. Do you think that is libelous?

Mr. HUSTON. You asked whether it was factual or not. We are not lobbying to defeat health insurance or health care at work. We provide health care at work, so I would not characterize that particular—if the ad said that we were against mandates, then I would characterize that as an accurate statement.

The CHAIRMAN. Well, do you think that that is a libelous statement?

Mr. HUSTON. I did not say that that was libelous.

The CHAIRMAN. Well, you represent your company, and you have lawyers. Are you saying that it is—do you think it is? You can say, "I do not think it is libelous now." I do not think there is any reason why you cannot say that. I am just asking you whether you think that that is libelous. You have a good law firm and good lawyers; do you think that that is a libelous statement?

Mr. HUSTON. I would say that if it said we were against mandates, it would be a much more accurate statement.

The CHAIRMAN. Well, I am not asking you that. I am asking you about this representation, because your company has hired lawyers who sent letters around that effectively threatened libel to various television stations that ran this ad. And we can run the ad; maybe

that would be better, which I am glad to do. I was just trying to run through the four or five lines of the ad.

Mr. HUSTON. Senator, I do have a statement about this if you would allow me to read it, and maybe it will clarify some of the issues that you are raising.

The CHAIRMAN. OK, fine.

Mr. HUSTON. I think you have to look at this picture from our perspective, or at least, I would appreciate that. We were sitting back in Wichita, KS, probably working on a new dough system or a new topping, when we got word, a call—we heard that some group calling itself the Health Care Reform Project had created a derogatory and untrue advertisement about our company, and an extensive plan to picket our restaurants and disrupt our business.

It looked like our reputation was being unfairly maligned, and I am sure, as the committee can appreciate, we took prudent steps to protect ourselves. I asked our counsel to review the situation, and we eventually got the name of the commercial's creator. We wrote these people, asking them to be truthful about our company, and even supplied them with information. In fact, in the last letter from the group, they thanked us for the information.

Now, in the July 21st—this was yesterday—1994 Washington Post article, two of the station managers gave their reasons for turning down the ad. WJLA general manager John Sawhill, who rejected the advertisement before receiving a copy of our letter to the Health Care Reform Project, said the ad was, and I quote, "more of an attack on Pizza Hut, in my judgment, than dealing with the issue of health care reform. Where the appeal is purely emotion, we tend to reject those."

Similarly, WRC general manager Alan Horlick said, "We do not make our time available when the principal thing going on is that one organization is attacking another."

In other words, the ad is, as we feared, a little bit mean-spirited.

Now, if asking someone to be correct about what he says and then supplying him with the information to ensure its correctness is intimidation, I think at least we have a semantic differentiation here.

I have all copies of the correspondence, and I would be happy to read those to the committee if you would so desire, or I can give you copies of all the correspondence between us, the law firm, and the Health Care Reform Project, which I think would probably clarify all of these issues for you, and you will see that there really was not any intimidation there at all.

The CHAIRMAN. Well, I want to move on to another subject. There is no question that your attorneys at one of the major law firms here wrote to those television stations and effectively indicated to them that if they ran those ads, which we will see right now, they would be subject to libel.

I would just like you to look at this ad and indicate what part of it you believe is libelous.

[Videotape shown.]

The CHAIRMAN. Having talked to your attorneys and seeing that ad, do you think it is libelous?

Mr. HUSTON. We had our attorneys send to the Health Care Reform Project a letter, saying that they should ensure that what

they ran was not libelous. We were under the impression that their ad said, and I quote, that "Pizza Hut provides no health insurance to any Pizza Hut worker." That was untrue.

The CHAIRMAN. Well, now that you have seen this——

Mr. HUSTON. This is fine, this is fine. As I said, Senator, I do disagree with the fact that I do not think it is semantically correct to say that we are against, and we are lobbying Congress against health care in the workplace.

The CHAIRMAN. Well, it is in the context of either mandates or no mandates.

Mr. HUSTON. Well, then, why don't they say that?

The CHAIRMAN. Because there is not a person up here who does not understand it, or has not read the newspaper and does not know that the question is that you provide health insurance overseas through mandates, and you do not provide here because you are opposed to mandates. That is not a great jump in logic.

Mr. HUSTON. Well, Senator, with all due respect, I would certainly think that the Health Care Reform Project produced that advertisement clearly not for you, but for the general public.

The CHAIRMAN. OK. You have an advertising budget of what per year—$100 million?

Mr. HUSTON. We spend, the total of all marketing and advertising, probably over $300 million.

The CHAIRMAN. And you do not think you could have handled that advertisement by indicating what the real position is? I mean, you thought that you ought to come down threatening libel rather than trying to deal with it, even within your own budget?

Mr. HUSTON. No; I think we were protecting Health Care Reform Project to make sure they did not do anything libelous. I think warning them ahead of time and giving them all the information allowed them to make the correct decision, and we have no problem with them airing this ad.

The CHAIRMAN. So it is fine, as I understand you to say, now.

Let me turn to the impact of health care policy on prices. Pizza Hut suggests that the higher prices for pizza in Germany could be attributed to employer mandates for health care. As you know, Canada has the single-payer system, which goes well beyond the bill passed by the committee. If mandated health care were the sole explanation for prices, you would expect pizza in Canada to be more expensive.

According to an informal telephone survey, pizza in Canada is cheaper than pizza in the United States. The chart shows the price of a cheese pizza at the Pizza Hut restaurant in Arlington, VA is $11.09; in Atlanta, $11.65; in New York, $12.65; and in Canada, it is $8.65 in Toronto, $8.74 in Quebec and Montreal; and $9.65 in Ottawa.

So that if universal health care and these mandates drive up pizza prices, why is pizza in the Canadian restaurants so much cheaper?

Mr. HUSTON. Well, Senator, with all due respect—and I do not know who gathered this particular data—this is not what our menu prices are. As a matter of fact, for a large pizza——

The CHAIRMAN. We can give you the numbers and the exact locations. I can give you the phone numbers; we called last night.

Mr. HUSTON. Fine. I cannot understand——

The CHAIRMAN. And these are converted into U.S. dollars.

Mr. HUSTON [continuing]. I cannot understand why that would be the case. I can tell you what our menu prices are. Our menu prices for a large pizza are about $16.99 Canadian, which at the current exchange rate would be about $12.99 or so.

The other thing is that I am sure your staff did not know that there are different size pizzas. A large is not a large.

The CHAIRMAN. That is even more interesting. [Laughter.]

Mr. HUSTON. Oh, not at all, not at all, because——

The CHAIRMAN. When is a large a large? Do you tell the public about this as well?

Mr. HUSTON. Oh, absolutely.

The CHAIRMAN. When do you tell them?

Mr. HUSTON. In our advertising.

The CHAIRMAN. Do you tell them a large really is not a large up in Canada——

Mr. HUSTON. If you—no——

Senator COATS. Why don't you let him explain, Mr. Chairman? I think he has got an answer.

The CHAIRMAN. OK.

Mr. HUSTON. Yes, Mr. Chairman. All we really do is we call it a large, and we also say the size of it; it is 14 inches, it is 15 inches, it is 13 inches. All mediums are not the same. As a matter of fact, in Germany, the size pizza we have for a medium is 10.5 inches versus a 12-inch pizza here in the U.S.

Therefore, when you are trying to compare pizza prices and cost structures and things like that, you really have to understand the total—the difference in size of pizzas, as well as the cost. And at times, we run specials, and we could have had a very aggressive special at that particular time that you called. But a comparison of menu prices would fundamentally have an increase—just as an example, a medium pizza here would run about $11.75. A medium cheese pizza basically is $11.75 U.S. in Canada; whereas here, it would be in the $7.40, $7.50 range on our menu.

I think the other thing, too, that is very confusing——

The CHAIRMAN. I am going to ask my staff to go out and call those again.

Mr. HUSTON. [continuing.] I think the other thing that is very confusing is that, quite frankly, the cheese pizza mix is probably an inappropriate comparison, because about 3 percent of the total mix is actually cheese pizzas. Most people buy pizzas with toppings on them, and as you increase the toppings, the prices escalate, obviously.

So this is a simple business, but these are the little nuances that you have to be aware of when you are trying to compare prices.

The CHAIRMAN. Well, I will accept the point you make that a variety of different factors go into the cost, unlike the statement made by Pizza Hut that with mandates, the increased costs would go right up through the roof through your own advertisement. You are making the point that there is a variety of different factors besides just the health care costs. And you can advertise that any kind of mandate would increase the cost of any of these pizzas up

to $19, or whatever it was, but that just is not accurate, for the reasons that you State.

Mr. HUSTON. Senator——

The CHAIRMAN. My time is up——

Mr. HUSTON [continuing]. Senator, if I could just clarify that particular point, I think the advertisement that you are alluding to was a full-page ad that we ran in the Wichita Eagle. In that particular advertisement, we said that the cost for a pizza in Germany was $19, and the cost for a pizza in Japan was $25. We never at any time said that the pizza in the United States would reach that particular point.

The CHAIRMAN. You never estimated what the cost would be if we had mandated health care?

Mr. HUSTON. All we said was that the costs would be higher. We did not say——

The CHAIRMAN. All right. Given the fact that you testified before the Ways and Means Committee that labor costs are 30 percent and that there is a 12 percent cap—and this does not even include the minimum wage places; at the top, it is 12 percent—how much would that increase? According to the Joint Economic Committee, it is 40 cents per pizza. Does that sound about right?

Mr. HUSTON. No, it does not, and if I could explain, if you just took a very simplistic view and said 30 percent of your cost is in fact labor, and 12 percent is what the cap would be on health care, you would end up with about a 3.6 percent increase. And I think they multiply that times an $11 pizza, and that is where they come up with about 40 cents.

That is a rather simplistic view, and it really does not reflect what actually happens in the marketplace. What really happens is this. For every dollar increase that we actually take in price, not a dollar comes through; about 95 cents of that dollar comes through. The reason for that is that we have cooperative advertising agreements that are based upon a percentage of sales; some of our rent agreements are actually on a percentage rent basis for each one. So therefore, if you increase your price, you show that in your sales, but it actually costs you money as you go forward.

So therefore, you get about 95 cents out of the dollar out of that. So you take the 3.6, and you divide it by .95, and you come up with around 4 percent.

Now, if we just take what I would characterize as a rather conservative price elasticity ratio—and as I have stated before, our actual price elasticity ratio is about 1-to-1 in that particular example that I gave—but if you take a rather conservative price elasticity ratio of 1-to-.75, that would mean that we would actually have about a 10.5 percent increase, because we would up our prices by 4 percent, but we would lose 3 percent traffic. Then I would have to take another 3 percent pricing action, and I would lose 2 percent traffic, and I have to ratchet myself up. The net effect is that the cost increase, or the price increase, is going to be somewhere between 10 to 11 percent. Now, the effect of that on an $11 pizza is $1.10; it is not 40 cents.

The CHAIRMAN. Well, I appreciate your explanation. The Joint Economic Committee staff does not agree with you, but I think we will let that go for now.

Briefly, because my time is just about up, as I understand from your quote, company surveys show that some 70 percent of the hourly work force already have health insurance coverage from another source. Why should you freeload on others who are providing insurance either through their families or their spouse? Why should Pizza Hut freeload and let others pay for your employees' health care costs as you transfer the costs to other employers?

Mr. HUSTON. No. 1, the total percentage of our employees who actually have health care coverage is over 80 percent. As a matter of fact, it is very similar to what we would have in the rest of the United States. So quite frankly, we are not cost-shifting. We are not any better or any worse than the average for the U.S. industry.

Now, if you are asking why do we allow, or why don't we pay for people who are spouses——

The CHAIRMAN. Well, do you think it is fair—just as a matter of basic fairness, that some other company pays for coverage for 70 percent of your employees? Is that fair that somebody else is paying for people who work for you? Just getting away from all the ratios and all the rest, as a matter of fundamental fairness, do you think that cost-shifting is fair?

Mr. HUSTON. Yes, I do. If I could explain.

The CHAIRMAN. All right.

Mr. HUSTON. Quite frankly, a lot of these companies have already made covenants with their employees. As a matter of fact, when they negotiated with their employees, in terms of bargaining for their benefits, they obligated themselves to pay for the employee, his spouse, and his children. To come back afterwards because their costs are escalating and say that, I want to break that particular covenant, and I now want to you lay costs back onto the spouse and back onto the children when they work outside, I do not think that that is quite right.

The reason is this. If we were required to pick up that particular cost, the net effect would be that we would have to increase prices. By increasing prices, our traffic drops off. And in this particular case—let us just use the case that I had at a 10 or 11 percent increase, and I have an 8 or 9 percent traffic decrease, or number of guests decrease—literally, that is almost 20,000 jobs that would be in jeopardy, 20,000 jobs.

The CHAIRMAN. The only thing, Mr. Huston—isn't somebody else raising their costs? Why should somebody else have to raise their costs so you do not have to raise yours? What is fair about that?

Mr. HUSTON. The market is already in equilibrium.

The CHAIRMAN. Because someone is concerned about his wife and his children, and another company is willing to take care of that employee whose spouse works for you, you think you ought to get a free ride, in the United States of America; you think that the other company ought to pick up the tab and that you have no responsibility to do it. And you are not up here in front of the Congress of the United States saying, "Look, I represent Pizza Hut, and I am prepared to deal with my employees. We are prepared to treat them right. We do not want to freeload. We made $370 million last year, and we are proud of it, but we have sufficient respect for our employees that we want to have the same kind of relationship with them that Ms. Accuardi has with hers."

You are saying to us, "We will let somebody else, some other employer, pick up the health care cost, whatever it might be for our employees."

Mr. HUSTON. Well, Senator, to me, the real issue is what do we tell the employee when his son or his daughter is in fact laid off, and that employee then goes back on his health insurance plan because he has lost his job. I do not know how to rationalize that.

Quite frankly, I think this particular issue is probably not addressing the real issue that you all have and that we have. By changing jobs around and saying who is going to pay for it, we do not increase the total number of people in the United States who actually have health insurance. I think that is much more the fundamental issue that we should be addressing, and not talking about cost-shifting.

The cost-shifting thing basically gets no more people covered under any kind of health care coverage, and I think that is really the much more critical issue that we should be addressing.

The CHAIRMAN. Well, I will yield, but as I understand you, the ad is okay, and you think it is fair that others—what is your health insurance? Could I just ask you that, in conclusion; what do you pay for yours? Personally, what do you pay, and what does the company pay?

Mr. HUSTON. I am trying to think. I pay 100 percent of it, and my health insurance runs about $3,600 a year, or $2,800, something in that neighborhood—I cannot tell you.

The CHAIRMAN. Between $2,800 and $3,600—you cannot tell me?

Mr. HUSTON. Well, I am trying to think, because actually I get as part——

Senator COATS. It is less than ours in Congress.

Mr. HUSTON. Pardon?

Senator COATS. It is less than ours in Congress.

The CHAIRMAN. It sure is——

Senator COATS. The Government picks up 75 percent of ours.

The CHAIRMAN. That is right.

Senator COATS. A great deal; it costs them about $6,000 a year. A good plan.

The CHAIRMAN. Yes; the employer pays. It is a shared——

Senator COATS. The taxpayer pays; the taxpayer pays—not the employer. It is the taxpayer.

The CHAIRMAN. That is right. It is shared. And I do not hear you saying that you want to renounce yours, Senator, because you are so concerned about it. I hope those who are sufficiently concerned about it will at least have the dignity not to accept it if they are so concerned about it.

Senator COATS. Well, Senator, this issue on cost-shifting is an interesting issue——

The CHAIRMAN. If I could just say—and then I will yield——

Senator KASSEBAUM. It is my turn.

Senator COATS. How long does each member have? You have gone 22 minutes.

The CHAIRMAN. I just want to get the answer on what he pays. If he could just answer that, and then we will move on.

Senator COATS. Well, it seems like we are not letting him answer.

The CHAIRMAN. OK.

Senator COATS. He is trying to answer, but he keeps getting interrupted.

Mr. HUSTON. Senator, I can tell you how our system works. We are actually paid in pre-tax dollars, and as part of my salary I get a certain amount that I can then apply to benefits. The benefits include health care insurance, they include life insurance, accidental insurance, dental insurance, vision insurance, all of that. So that fundamentally, I pay out of my own salary, in pre-tax dollars, for those particular benefits.

Now, the total that I get, I would characterize as part of my salary, is around $3,300. If I do not use that, that money comes to me, and it is taxed. If I use over it, then I have to take out of my other funds, basically, and I pay the incremental cost associated with doing that.

The CHAIRMAN. Senator Kassebaum.

Senator KASSEBAUM. Mr. Chairman, just to follow on a bit, because I do not quite understand your arguments on the cost-shifting. That is the way every company in America is operating right now.

In Wichita, a number of the employees who work for Pizza Hut probably have family that works at Boeing. Now, if I am following your argument, which I find hard to follow, you would say that Boeing picks up an unfair burden, is that right, that Pizza Hut should share?

The CHAIRMAN. I think we ought to have a fair playing field and that employers ought to pay for those people who are working there, and work out a deal for the members of those families. That is what I think. I do not think you should have the cost-shifting. Fortunately, we have got it; I am not for yielding that; I am for making the playing field level. But 2 are against the idea that you have major companies and corporations subsidizing other companies. Yesterday we heard from 120 companies and corporations that are competing internationally with good programs. They are basically subsidizing their competitors. You have a $40 billion a year cross-subsidy from those companies that are providing good health care to those that are not. And that, I think is unfair——

Senator KASSEBAUM. Mr. Chairman, I did not mean to give you back your time.

The CHAIRMAN. OK. Well, you know how I get on this.

Senator KASSEBAUM. I know, I know. [Laughter.] But 30 percent of one's premium today goes to cover cost-shifting for subsidies for uncompensated care. When people go to the hospital today, they are not turned away if they do not have insurance, and that cost is transferred on; so there is a lot of cost-shifting going on. That is very true. But it is the way we have done American business, and it actually is factored in even in all of our health care plans and how we portion this out.

Senator COATS. Would my colleague yield just on that point on cost-shifting, because we had a hearing before this committee a few months ago, and we were discussing the President's plan, and we had a representative from Ford Motor Company testify that most large companies in America, who are under union contracts, are paying about 20 percent of payroll for health care. In the Presi-

dent's plan, they would go down to 7.9 percent. In questioning the representative from Ford, he finally admitted that Ford would save about $1 billion a year under the President's plan.

So cost-shifting works both ways. Every company, I believe, that is a member of the Health Care Reform Project, stands to very substantially cost-shift costs that they are ow paying onto somebody else's shoulders. Now, a lot of Members of Congress have spouses who work for major corporations, but they take advantage of the members' plans.

So I think this cost-shifting affects us just as much as the charges the chairman is making about the gentleman from Pizza Hut. I think maybe we ought to look at ourselves before we start making accusations about the witness.

Senator KASSEBAUM. Mr. Huston, I wanted to ask you one question, because we were talking about Kentucky Fried Chicken with Ms. Kincer, and Ms. Newman was talking about the Whitesburg Pizza Hut. Is that an independent franchise, or is that owned by you?

Mr. HUSTON. Yes, it is an independent franchise.

Senator KASSEBAUM. So they would make their own benefit policy decision?

Mr. HUSTON. Yes, they would. We just bought that particular franchise back, so therefore, if she were working at that particular Pizza Hut, she would have an opportunity to buy into our part-time employee benefits or health care benefits program, at $11 a week for a single.

Senator KASSEBAUM. Well, I think it is important, because there is a difference here between saying Pizza Hut is doing this, when it may be an individual franchisee decision that was made as far as how they handled benefits; is that correct?

Mr. HUSTON. That is correct.

Senator KASSEBAUM. I would like you to explain a little bit how you came to the health plan that you did. Am I correct in saying it would be $44 a month employee contribution?

Mr. HUSTON. That is correct, Senator.

Senator KASSEBAUM. And when did you start looking at what you felt should be offered for part-time employees, and how did you go about sampling what employees thought?

Mr. HUSTON. About a year and a half ago, we began to look at this particular issue. We recognized that we had a very unique work force. Most of our work force is very young. The average age is 25. The number of months that they actually work with us is about 7. We have about 135 percent turnover rate, which means the average employee is with us about 7 or 8 months. And obviously, you have a lot of people who turn over, and then you have people who are relatively stable.

So, because we had a very unique work force, we did not just go out and say here is the program we want to do; we actually went out and had focus groups with our employees in numerous locations, to really find out what their needs were, and we then developed this particular program in response to their needs.

After we got the input first, we then tailored the program, and we went back into individual focus groups after that to make sure we had hit the mark, and we made a couple of changes at that par-

ticular point in time. And we continue to look at it today. I mean, this is a dynamic process where, obviously, the landscape changes, and we need to keep abreast of what our people need, within the realm of affordability, because the thing that we cannot do is we cannot take our costs out of line and become fundamentally noncompetitive. If we put our people in that position where we are noncompetitive, we will not sell pizza, and we will not have jobs. So it is a very fine line that you have to work in that particular regard. But anyway, that was the process that we used.

Senator KASSEBAUM. Are all the other national and international pizza operators offering some type of part-time insurance now; do you know—without getting into names?

Mr. HUSTON. Actually, we have not expanded this thing outside the U.S. at this point in time. Obviously, in those countries where we have mandated health care benefits——

Senator KASSEBAUM. No, not Pizza Hut; I am speaking of other pizza manufacturers that are national or international in operation.

Mr. HUSTON. I do not believe that any other major pizza company offers this kind of program.

Senator KASSEBAUM. For part-time.

Mr. HUSTON. For part-time. There are very few, I think, as a matter of fact, that offer this kind of health care coverage for their part-time workers. I think Wendy's is the only other one that I am aware of.

Senator KASSEBAUM. How many—and maybe you said this in your statement; I do not remember—how many of your workers are participating in Pizza Hut plans?

Mr. HUSTON. About 10 percent of our total part-timers, which would be about 12,000 people. Seventy percent are in fact covered by some other means, either through their husband or their parents or school, or something like that. So a little over 80 percent we actually have covered, and the remainder have said they do not want the service, or they just do not want to covered.

Senator KASSEBAUM. Yes; they feel that that would be more than they would want to take out of their monthly paycheck.

Mr. HUSTON. Yes; they just do not want to pay for it, or they do not think they have the need. You know, in some instances, people do not think they have the need.

Actually, we have another program that is an accident program, and a lot of our people actually sign up for the accident program because as individuals, they are very young, and they have this feeling, I guess, that they are almost immortal. I did at that age. But what could happen to them, obviously, is they could have an accident. So in that particular case, they are able to buy this accident insurance at about $3.50 a week, and that seems to meet their particular needs. So if they were hurt in an accident or something like that, they would obviously have health insurance or health coverage for that.

Senator KASSEBAUM. Let me just ask about the accuracy of the Health Care Reform Project report. Did they ever contact you to ask questions about what you do, how your health care plans work?

Mr. HUSTON. They never contacted me personally, and of my staff, I do not know of anyone in the executive ranks who was contacted by the Health Care Reform Project.

Senator KASSEBAUM. As has been talked about, of course, they claim that you have had rapid expansion in Germany and Japan, and you have just outlined that that indeed is not the case.

Mr. HUSTON. I would not call it "rapid." As a matter of fact, in Poland this year, we will develop about 54 restaurants. That is what I would call "rapid."

Senator KASSEBAUM. In Poland?

Mr. HUSTON. In Poland, right. Twenty-four restaurants in a 3- or 4-year time frame is not rapid.

The CHAIRMAN. Do they have health insurance over there?

Mr. HUSTON. No, as a matter of fact, they do not.

The CHAIRMAN. I am surprised.

Senator COATS. They had it at one time, Mr. Chairman. [Laughter.]

Senator KASSEBAUM. They thought better of it.

Senator COATS. It did not work.

Senator KASSEBAUM. The Project also claims that operations in Germany and Japan have been tremendously successful, and employment is on the rise within the company in these countries; and you have pointed out that that is indeed not the case. So they must not have really tried to accurately assess the situation.

Mr. HUSTON. Well, our franchisee there has not been able to get a reasonable return on its investment on a per-unit basis. This business is really based on each individual unit. Each one of these units is a little independent business, and you have to get a return for it. As I said before, they average about $1 million in store sales, but their cost structure is so high that they cannot get a reasonable return on that particular investment.

Now, I am sure where the Health Care Reform Project got that particular information was the press release we had when we signed the franchise agreement. Obviously, their development agreement says they are going to develop 150 units over the next 5 years. Believe me, if they do not get a reasonable return, they will not develop 150 units over the next 5 years.

They are working on it, and we continue to work with them. We still think that, obviously, a place like Japan, with 130 million people, is a great market, and we should be able to crack the code on making it a viable business. So we continue to invest, and they continue to invest in that particular regard.

Senator KASSEBAUM. Thank you, Mr. Huston.

I will yield back any extra time I have to Senator Coats, because he was not here for opening statements, Mr. Chairman.

The CHAIRMAN. OK. Senator Simon.

Senator SIMON. Thank you, Mr. Chairman.

First of all, I want to join in commending you for being here. There had to be a little discussion among your executives whether it would be wise to come here——

Mr. HUSTON. Yes.

Senator SIMON [continuing]. And I appreciate the fact that you have come and entered the lion's den, so to speak.

A couple of comments. One is that when you talk about the price of pizza in Japan and Germany and the United States, the price of food, of course, in those countries is much, much higher than it is in the United States.

Mr. HUSTON. It is high, yes.

Senator SIMON. So that those kinds of comparisons are not very meaningful.

Second, you mentioned about Germany—Germany's cost for health care is 8 percent of their national income. Our is 14 percent of our national income. If you did not have the mandate in Japan and Germany, would you drop health care protection for your employees there?

Mr. HUSTON. I think we would do what we needed to do to be competitive in the marketplace. It is really the marketplace that determines what pay scales and benefits are. From our perspective, we obviously have to offer a competitive wage and benefit package. We want to get the best workers, so we would provide something that would be a little bit more competitive, but not so outrageous relative to the market that we set our people up for failure. If we have a higher cost structure than anyone else, we cannot compete; and if we cannot compete, then fundamentally, we have just doomed them to failure because the business will fail, and they will be unemployed.

Senator SIMON. So your answer is that you might drop health insurance.

Mr. HUSTON. It would depend upon what the market is, Senator. That is how we really make the determination of what the pay rates are and what the benefit levels are.

Senator SIMON. To what extent do you consider the welfare of your employees along with the marketplace?

Mr. HUSTON. Oh, we consider that all the time. You know, in the restaurant industry, we are in the hospitality industry. Clearly, our vitality and our reason for being—we have to give our patrons and our customers a reason to return. If we have employees who are unhappy and upset and angry, they are going to treat our guests in that way, and that clearly is not an inducement for future business.

So it is very important that we keep abreast of what our employees want, and that is the reason why we even developed this particular health care program, and we tailored it to meet their particular needs. We think we are doing that. Obviously, I am sure we will not meet everyone's needs, but we think we are meeting the majority needs of our employees, and we think that is very important, and it is good business for us. We have to have happy people.

Senator SIMON. You were here when Ms. Accuardi testified.

Mr. HUSTON. Yes.

Senator SIMON. Did that cause any second thoughts for you at all, any kind of reflection on your part?

Mr. HUSTON. Well, I think Ms. Accuardi—quite frankly, our program is less expensive. I am not sure what her particular benefit levels are, especially for the employee. The employee would pay less for our health care.

We think we have tailored our health care for the needs of our employees. They have told us that it meets their particular needs,

the ones who take it. So that no, I really do not have any second thoughts. If something in our employee discussions would indicate that we were not meeting the needs of our employees, then clearly, that would be a reason for me to reassess.

Senator SIMON. You have purchased the Whitesburg, KY Pizza Hut franchise.

Mr. HUSTON. Yes, right.

Senator SIMON. Do you provide the manager of that Pizza Hut there with health insurance?

Mr. HUSTON. Our salaried employees have health insurance, and they pay for it basically just like I do, in terms of a company-owned restaurant. A portion of their pay, they can apply to health care, and if they use all of it—for life insurance and dental and vision coverage—and if they use it all up, they do not pay anything; if they use more, they pay more; and if they do not use all of the salary that is set aside for that, then they get the salary back, and they pay taxes on it.

Senator SIMON. And because this is deductible, and it is not counted as income, unless you get money back——

Mr. HUSTON. Unless you get the money back; you pay it out of pre-tax dollars.

Senator SIMON. So that basically, you have a taxpayer-subsidized health insurance, you personally, and the manager at Whitesburg does?

Mr. HUSTON. Well, I think it is what the law allows.

Senator SIMON. I understand, I understand. I am not saying it is illegal.

Mr. HUSTON. I would not say it is subsidized. As a matter of fact, I would say that maybe you ought to consider doing this for everybody.

Senator SIMON. Well, that is what we really want to do, is do this for everybody and make sure that every American is covered.

Mr. HUSTON. And one of the way you could do that, obviously, is doing it with pre-tax dollars.

Senator SIMON. And the very interesting thing is that that will not cover everybody, and we are going to leave a lot of people out. And some of us are interested in seeing that all Americans are covered, just like Germany sees that all Germans are covered, and other countries see that everyone in their country is covered.

I would like to follow through a little on the question asked by the chairman and that Senator Kassebaum talked about. In fact, Senator Kassebaum, Boeing picks up part of the tab for the employees at Pizza Hut. I think everyone acknowledges that. And then, it is not only Boeing that picks up part of the tab; it is also—let us just take Ms. Newman. When she was not covered and really desperate and almost lost her home, if she had had a serious problem, she would have been on Medicaid. All of us taxpayers would have picked up the tab. And that causes some problems in the minds of some of us, that maybe we ought to work out a fair system so that Pizza Hut, you pay for your employees, and you may have to pay a little more—we have to pay a little more for pizza.

And incidentally, if I may digress here—if you would put up the other chart, on the minimum wage—nationally, there was not a loss. In Pizza Hut, the increase in the minimum wage did result

in a loss. Did you sell fewer pizzas when you had this loss of jobs there?

Mr. HUSTON. No; we sold more.

Senator SIMON. So that you increased productivity.

Mr. HUSTON. We increased productivity, right.

Senator SIMON. OK. And that is one of the things we can do in our country is increase productivity, and you increase revenue also in the process; right?

Mr. HUSTON. We are always about that.

Senator SIMON. OK. If we were to start with a fresh slate, and we were to create a system where we would say employees can voluntarily pay for their employees, and then if you do not, you do not have to if you do not want to; but if you voluntarily pay for your employees, you also have to help pick up the tab for those who do not pay for their employees—I think you would agree that that is a pretty ridiculous system, wouldn't you?

Mr. HUSTON. Senator, I think you made one assumption there that is probably not realistic, and that is the fact that you started from scratch; you started all over again. The fact of the matter is that those employees of other companies have already bargained, and they know they have those benefits for themselves and their spouses and their children.

And the fact of the matter is that if, by us picking up that particular cost, it would cause us to raise our prices and therefore have a slack in demand, and then have to lay that individual off, that individual is going to be right back on that company's health plan.

So I am in a real quandary about how you rationalize that kind of a situation.

Senator SIMON. Well, the system that I described is obviously the system that we have; and the system that we have permits Pizza Hut to say to Boeing, "You pick up a good chunk of the tab for my employees." Many of us believe that that is unfair, particularly when you have so many people falling through the cracks, like the woman over here who cannot pay $60 a month for heart medicine that she needs.

I think that somehow in this rich country, we ought to be able to do it. And my guess is that just as the minimum wage did not decrease the sales of your pizza nor your total revenue, if we see to it that she gets $60 a month for her heart medicine, that is not going to hurt Pizza Hut, either, and it is going to enrich this Nation.

Does it bother you at all that we are the only Western industrialized Nation that does not provide health insurance coverage for all of our citizens?

Mr. HUSTON. I cannot comment on that in terms of—I have never really thought whether it bothers me. All I know is that we have the best health care system in the world, and I can attest to that——

Senator SIMON. If you can afford it. If you can afford it.

The CHAIRMAN. If you can afford it.

Senator SIMON. She cannot afford it.

Mr. HUSTON. Well, the question is can you afford it, and what can you afford. I think that is the real issue that is before all of us is just how much can you afford.

I can tell you this, that if Ms. Kincer worked at Pizza Hut today, then she would have an opportunity to buy into our single-payer—or single-person plan. There was nothing Freudian in that at all.

Senator WELLSTONE. You are doing well. [Laughter.]

Mr. HUSTON. But she would have an opportunity to pay in $11 a week, and she would get 70 percent of her prescriptions covered—which is not a bad deal, I do not think.

Senator SIMON. All right. You are an above-average man in ability, and you said you had not really thought much about the fact that other countries cover——

Mr. HUSTON. Well, I think——

Senator SIMON [continuing]. Let me finish. And I am simply asking that you do a little reflection. You started off by saying we ought to have meaningful dialogue. I think we should. We do not want to hurt Pizza Hut. We want American business to thrive. But I think there has to be some reflection on the part of leaders like you that this country has to do better and that we have to cover all of our citizens, and anything short of that is short-changing this country.

Now, I think creative people like you ought to be part of molding this package so that it helps Pizza Hut and so that it helps this Nation.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Coats.

Senator COATS. Well, Mr. Chairman, I was going to ask our witness, Mr. Huston, a series of questions to allow him to give the other side of the story, but he has very ably done that.

For the record, obviously, there is disagreement about what our system provides for people and what it does not, and jobs that it is able to create and benefits that it is able to provide. But I think I will confine my remarks to the process here, rather than reiterate some of the facts, which I think have already been put on the table.

Senator Simon said he thinks we need a meaningful dialogue and reflection, but this hearing this morning has been anything but that. It is the typical hearing which puts on the first panel sincere, well-meaning individuals who tell individual stories, but by the time we get to the facts, the press is gone, the photographers have gotten the pictures that they want.

I think it is demeaning to the committee to set out a "Big Mac," fries and a Coke, with an empty chair, for McDonald's. That is not meaningful dialogue. That is not reflection. That is not a way to solve the problems of the individuals who testified on the first panel, to seek meaningful health care reform. That is designed for political purposes—good visuals—you noticed all the photographers left as soon as they got their pictures. The cameras are gone. C-SPAN is still here, but they agreed to cover the whole hearing.

The fact is that McDonald's wanted to testify. They were notified less than a week prior to this hearing that they would be at the inquisitor's table. They made the same decision that Pizza Hut did. I doubt that Pizza Hut would make the same decision again, al-

though I am glad you made the decision to come here, because if you had not, there would have been a pizza sitting where you are now sitting——

Mr. HUSTON. I hope it would have been a Pizza Hut pizza.

Senator COATS [continuing]. And you would not have been able to get your side of the story in the record.

The letter that went to McDonald's was mailed on July 15th. What we know about the Government-run mail system now is that it is fortunate that it got to McDonald's at all——

The CHAIRMAN. We can have them back at another time.

Senator COATS. Well, the fact is, Mr. Chairman, they offered to come. With less than a week's notice, the CEO said he could not rearrange his schedule to be here, but he said, "I would like to send Mr. Stanley Stein, who is the senior vice president in charge of human resources for McDonald's to appear on behalf of McDonald's." This is his letter back to you, dated July 20th.

He said, "Mr. Stein is head of human resources worldwide and the best-qualified person in McDonald's to discuss the issues raised by the Health Care Reform Project report, as well as related issues."

This committee did not allow Mr. Stein to appear, despite the offer, because maybe we would not have been able to have the visual. Mr. Huston, this is not a hearing. We are not trying to get facts. This is all into politics now. This is all for show. We know what the picture is going to be in the Washington Post tomorrow. We know what the clip is going to be on TV tonight. It is not going to be this letter; McDonald's is not going to be able to present its case as they requested to do; it is going to be the visual of the McDonald's items, and there will be some interesting clips from some of the members of the committee.

So this is just for show. I am glad you came to put it in the record, and it will be in the record. Members of the Health Care Reform Project all have a vested interest in the President's bill; that is why they signed up. Ford Motor Company—it is right here in the committee hearing report—makes $1 billion because, for whatever reason, they negotiated health care for their employees, and now they cannot compete with other companies in the world that do not have the same health care costs. That is what they testified to.

We have to compete, so the President's plan bails us out, $1 billion a year—just one of the companies that is part of the Health Care Reform Project. I imagine every company in here, if you go through it, stands to cost-shift their health care costs onto some other sector. Ford's will go to General Mills. They testified here, and they only pay 4.7 percent of payroll. Under the President's plan, they will move up to 7.9, so they will pick up Ford's. So there is a cost-shift going on all over the place here. But we are not engaged in meaningful dialogue as to how to deal with this; we are simply engaged in making our political points, and we have entered that season now.

I am not sure how much free air time the President is getting to push his plan, but I do not begrudge you at all for taking a little bit of time to exercise your First Amendment rights in stating that as a leader—that is what I find so ironic—as a leader in the res-

taurant field in terms of trying to reach out to provide health care to your employees, understanding that you also would like to keep them employed, and therefore, you need to make a profit, that you do not just suddenly raise your prices $3 per pizza, provide health care for a lot of your employees, a lot of them part-time, a lot of them kids working in the summer after school, on Saturdays, and not have it affect the number of people you can employ. But we are not interested in those facts. We are not interested in what it takes to make American business competitive, to make it work, because we are all Government employees, and we do not have to make a profit. We do not understand what it takes to make a profit. We have never had to meet a payroll. So the frame of reference here is well, why can't you do it, why can't you just be more competitive? Why don't you care about your employees, instead of exploiting them?

There appears to be no comprehension that in order for you to take care of your employees, you have got to make a profit or you are out of business, and those employees are out of work.

So the only reason I stayed around was to make this little speel, but I think this is just all for show, and I have had enough of it today, but I appreciate your coming and hope you will again, but I hope we can give you a fairer hearing next time.

The CHAIRMAN. Senator Wellstone.

Senator WELLSTONE. Thank you, Mr. Chairman.

Let me try to ask a couple of policy questions. I had to make a transition back, because I was thinking about the $3 per pizza—these figures get thrown around a lot—and also the whole issue we were going to have some discussion about, elasticity, and how all of this would affect jobs.

But let me ask just three questions, Mr. Huston, and one of them is more personal, but given what my colleague from Indiana had to say, I want to make it really clear that it is actually to try to make a policy point, and I will try to do it in a way that you will feel is respectful.

First of all, one thing that is confusing me—and you might be able to help me on this—is this whole issue that Senator Simon asked you about. What would you do in Germany if you were in a different system—would you or would you not require coverage? You said it sort of depended upon the market and what you would need to do to compete.

This came up with the Senator from Kansas. If every company had to pay—every company—wouldn't that then level the playing field in terms of the market? I would think that some companies would no longer be at a disadvantage. I have been trying to follow the logic of this, if you see where I am heading, and it would seem to me that that would be one of the pluses. You would not then be able to say that you can't do this because it would put you at a competitive disadvantage vis-a-vis other business in our country in the private sector, because everybody would be contributing some share.

So wouldn't that level things out market-wise?

Mr. HUSTON. Not really, Senator. The thing that we miss here is that there is one other entity, and that is called the consumer. And while the competitive playing field might be equal, if we all

have to raise our prices fundamental of the elasticity of demand would dictate that we would have fewer people coming to our restaurants; as we increase our prices, basically, our customers start to make decisions.

Their alternative is that instead of coming to a restaurant, they can prepare the food at home and eat it at home. And that is the reason why we have a very particular dilemma. They always have a choice, they always have a choice, and we have to remember that, and that is the reason why we have to keep our prices competitive.

Senator WELLSTONE. All right. Again, my background is in political economy, which does not make me any expert, but it does seem to me that—and I am not saying you are wrong—I am just saying that there are all sorts of counter-arguments that could be made. I mean, there are a lot of people that, given what a lot of middle-income people pay for coverage right now in terms of percentage of income for health coverage, and given the explosion of the cost cannot purchase coverage. It might be that as we build some sanity into this system in making sure people can afford it, that people might be able to buy more.

You have one set of assumptions; I might have another set of assumptions. In other words, given the fact that you deliver a very good product, a lot of people who say, look, in terms of our family, we can only go once every month, maybe can go once every 2 weeks. It just depends on how you look at it, I think. OK.

Second question. I want to understand your plan. Six months first, before there is any coverage. Is that correct?

Mr. HUSTON. No. They pay into the plan virtually immediately, and then, as they pay in for 6 months, there is additional coverage that kicks in after the 6-month time frame that we pay for.

Senator WELLSTONE. But what do they get for the first 6 months? Are they covered?

Mr. HUSTON. Yes, they are covered. A typical plan is the deductible is $100 per person, $200 per family; 70 percent of eligible expenses are covered; the maximum payout is $14,000 a year. After 6 months, the coverage increases to 100 percent of eligible expenses, and there is a $100,000 lifetime maximum, and the company pays for the additional layer of coverage. Prescriptions are covered at 70 percent.

Senator WELLSTONE. Yes, but you do not pay anything for the first 6 months—that is what I am trying to get at.

Mr. HUSTON. No, no. The employee pays for the first 6 months, and then, as they pay through that, as they get to the 6-month threshold, we increase the coverage.

Senator WELLSTONE. And then, after 6 months, you contribute.

Mr. HUSTON. We contribute. We increase the coverage, and we pay for that increased coverage.

Senator WELLSTONE. What percentage of your employees, do you know—this is not a trick question; it is an honest-to-goodness question—what percentage of your employee stay more than 6 months? What is your turnover?

Mr. HUSTON. Our turnover rate is about 135 percent, but it is very polar. I think, as I remember the statistics, about 50 percent of our employees are less than 1 year, and so 50 percent would be greater than a year.

Senator WELLSTONE. And do you know the 6-month? That is sort of interesting to me, since you do not pay anything until after that.

Mr. HUSTON. This does not quite give it to us in terms of the percentage of population, but I did have something here.

Senator WELLSTONE. If you could provide me with a figure. I am not trying to—this is not like at this moment, all eyes are on you, and you are on the spot——

Mr. HUSTON. Yes. I have got it here somewhere.

Senator WELLSTONE. I would just like to get the information.

Mr. HUSTON. Right. I have got it in here somewhere.

Senator WELLSTONE. OK.

Mr. HUSTON. But I would characterize it as very polarized, quite frankly. We have a lot of turn in the initial stages of a person's employment, and as they get through a 6-month threshold, then they stay longer.

Senator WELLSTONE. I would just be interested. You see why I asked the question.

Mr. HUSTON. Certainly, and I would be happy to give you that information.

Senator WELLSTONE. This is my last question, and to my mind, Mr. Chairman, this is the one that—just as a sort of forewarning—it is personal, but it is not a personal attack. It is to try to deal with this whole issue of it being affordable. I mean, you used the word—and I took this down earlier, and it has been said before—but that the insurance is available. And of course, the obvious point is that Mercedes are available to everyone, too, but some people can buy them and some people cannot.

I want to get to this issue of affordability. Let me try this example out. Even if Ms. Newman worked 40 hours a week and earned $4.25 per hour, she would earn $170 a week. Her health insurance premium would be $11 per week; correct?

Mr. HUSTON. Yes.

Senator WELLSTONE. OK. And that would be about 7 percent of her income. Mr. Chairman, I think we pay on the average about 3 percent of our income, as I understand it, in terms of what we contribute.

Now, most fast food restaurant workers are part-time, and in fact, you said that about 95 percent of your employees are——

Mr. HUSTON. That is right.

Senator WELLSTONE [continuing]. So I am giving the benefit of her working full-time.

Now, my question for you—and it is to make a point—what percentage of your earnings are your tax-deductible insurance premium? I do this for a reason, because it has to do with what is affordable. What percent of your overall earnings go into this premium, which is a tax-deductible premium, indeed?

Mr. HUSTON. Probably a percent, something less than a percent.

Senator WELLSTONE. OK. Now——

The CHAIRMAN. Wait a minute——

Senator WELLSTONE. What was the answer?

Mr. HUSTON. I said something less than one percent.

The CHAIRMAN. It has to be more; if you are going to take it as income, you must be up at a 35, 38 percent rate, aren't you?

Mr. HUSTON. Oh, I certainly I am.

The CHAIRMAN. Well, if you take it, then you would be paying that kind of an income.

Mr. HUSTON. Senator, I think the question was for the coverage that I get——

Senator WELLSTONE. I want to know what percent of the premium that he pays is of his overall earnings.

Mr. HUSTON. Earnings, and I just said it is a little less than one percent. And I think clearly, not all jobs have the same rate of pay or the same rate of benefits, and really, the market determines what that is. And obviously, the market for CEOs is the market for CEOs, and the market for people who work in our restaurants is the market for people who work in our restaurants. There are different pay scales, and there are different benefits levels for those things as a percentage of your total salary. And obviously, as your salary goes up, the basic cost stays relative the same, and the percentage drops.

And quite frankly, you say you obviously make a lot more than $4.25 an hour——

Senator WELLSTONE. That is correct.

Mr. HUSTON [continuing]. And that is the reason why you are at 3 percent and she is at 7.

Senator WELLSTONE. And that is the reason why I want to change the way we finance and deliver and health care, to make sure everybody has the same opportunity for themselves and their loved ones. So—this is the first time I have had a cross word to say to you—your example does not work, because I want to make sure that everybody has the same opportunity for themselves and their children. You do not, because you have just told me it is the market, and "I make this amount of money"—I have not asked you how much you make, and therefore, it is this percent, and other people, they just make that, and therefore it is another percent. I would just say to you that is easy for you to say; correct?

Mr. HUSTON. Well, it is not easy—I mean——

Senator WELLSTONE. I did not mean to be this way, but I just——

Mr. HUSTON [continuing]. It is a fundamental fact. I cannot argue the fact.

Senator WELLSTONE. It is indeed. It is indeed a fundamental fact; I agree. It is a fundamental fact, and we can either sort of just let it go there; it is a fundamental fact. And therefore, all you people who do not have any insurance—it is a fact. And all you people, like my mother and father who had Parkinson's, and you cannot afford long-term care, and it is just going to put you under—it is a fact. And all you people with disabilities who would like to live at home, with dignity, but cannot afford to now—it is a fact. And all you children who do not have decent health care coverage—it is a fact. Yes, we can say that.

Mr. HUSTON. Senator, I guess what I was referring to was the fact that I pay one percent, you pay 3 percent, she pays 7. That is a fact. The rest of your statement, I cannot necessarily agree with.

Senator KASSEBAUM. Mr. Chairman, wouldn't it be the same for those us and what we put in, and what the secretaries and assistants on staff do? It is different here, too.

Senator WELLSTONE. Yes. That is what we want to change. That is precisely the point, I would say to the Senator from Kansas. At some point in time, we have to get to the reality of this, that it is an issue of whether it is going to be affordable for people.

The CHAIRMAN. Mr. Huston, just briefly—and I am sorry that Senator Coats had to leave; it was Senator Wellstone's time for questioning—but I just want to backtrack and say that we did invite McDonald's, and they chose not to come. It is always nice to have the vice president for human resources, but we are interested in the policymakers, the CEOs, so that we can have a chance to talk and inquire.

What is important here is that you are the policymaker, and I admire the fact that you did come. You deserve credit. This has been an adversarial proceeding in terms of some of the members because we view these matters somewhat differently. But you deserve credit, and Pizza Hut ought to get credit because they have a leader like you who is willing to defend a position. We may differ with you and I may think yours is an indefensible position, but nonetheless you were willing to appear, and I appreciate that.

Second, as you understand—and we will hear later from the Health Care Reform Project—the basic issue that they were looking at were companies that are doing business here and doing business overseas,and how they were treating their employees. I basically believe it was random—maybe it was not, but that was my understanding. I think you could have done it for any American company, because they have got to comply with the laws overseas, and they are complying here at home. Many of those who are doing business overseas comply with the laws overseas and do not have mandates here. I mean, it is not a big mystery why you are here. I think you could take a good number of HEAL corporations, or any international corporation, and find that they provide health insurance for workers overseas, but they do not do it here. And that is the basic issue.

You would not be here, quite frankly, unless the company made the decision to have your lawyers write to various television stations to basically intimidate. Because it was the threat of libel which many of us have a difficulty with. If you had not effectively intimidated television stations with those letters, you would not be here today.

So quite frankly, we ought to put this into some perspective, with all due respect to my colleague from Indiana. There is the issue about companies overseas and how they treat their workers overseas and how they treat their workers here at home.

Second, I think people react and respond in this country at any time to the threat of intimidation on questions of information about a discussion and a debate. You can say that you believe that it could have been more accurately portrayed. I think Harry and Louise could have been more accurately portrayed, too.

Senator KASSEBAUM. That is for sure.

The CHAIRMAN. We can go around with that. But nonetheless the threat of intimidation is the point; that really is something that American people, at a time when we are coming to a debate and discussion on this, just will effectively not tolerate.

Let me just make a final point. I understand that the counsel for economic affairs at the Polish Embassy, has indicated you will be paying for health care over there, too. But I will leave that for another time.

Second, on the Canadian situation, your Pizza Hut at 5731 Lee Highway, Arlington, charges $11.09 for a 15-inch cheese pizza, 12 slices. And your Pizza Hut at 87 George Street—Canadian, it is $13.21. Translated under Wall Street Journal 3 days ago and the currency rating, that is $9.56. The information for the others is similar to that.

So these are points for debate.

Mr. HUSTON. Senator, did he order? The least you could have done was order a pizza. [Laughter.] We could have used the business.

The CHAIRMAN. We are going to check your delivery time. If you do not get it here in half an hour, do we get it free? [Laughter.]

In any event, I take serious issue with some of the policy questions, but I want to thank you for coming. Quite frankly, I think, rather than do Pizza Hut any kind of damage, I think you have done very well by the company in representing it. We have differences. That is what this business is about. But I respect you for coming, and we will have time for the others to respond, but we wanted to hear from the policymakers, someone who is able to make policy decisions as you are in your company. Others who were in a policy position—not just in a benefits position, but in a policy position—were not made available to us, and I regret that fact.

Senator Kassebaum.

Senator KASSEBAUM. Mr. Chairman, I would just like to say how very proud we are in Kansas of Pizza Hut. It was started by two brothers in Wichita, KS some years ago, I think, in their home.

Mr. HUSTON. In 1958.

Senator WELLSTONE. In 1958. It has grown into an international company.

And I would say in response to Senator Simon that Pizza Hut does care. In Mr. Huston's statement, he told us about various things that Pizza Hut has been engaged in in their communities. More importantly Pizza Hut has recognized the importance of trying to put forward a health care plan that could be utilized by part-time workers now.

So it is not a question of not caring. It is very much a question of wanting to try to do what can be done to help benefit employees and still remain a viable business, which will enable them to do some of the things that can have a positive benefit in the communities in which they operate.

So we are very proud of what Pizza Hut has represented in Kansas, and I am very pleased they chose to testify here today.

Mr. HUSTON. Thank you, Senator.

The CHAIRMAN. Thank you very much.

We will now go to our next panel, which includes Jonathan Gruber, assistant professor of economics at MIT, and faculty research fellow at the National Bureau of Economic Research; David Henderson, John Olin Visiting Professor at Washington University;

William Fisher, of the National Restaurant Association; and Robert Chlopak, of Chlopak, Leonard, Schechter, and Associates.

We will start with Mr. Gruber, and we will ask for 5 minutes from each of you and then come back for some questions. I think we are going to have some votes coming up. I think you have a pretty good idea of the issues which the committee is interested in, plus any other comments that you would like to make. We will include all of your statements in the record in their entirety, and we will leave the record open until Monday, the first of the week, so there can be additional questions submitted.

We will start with Mr. Gruber.

STATEMENTS OF JONATHAN GRUBER, ASSISTANT PROFESSOR OF ECONOMICS, MIT, AND FACULTY RESEARCH FELLOW, NATIONAL BUREAU OF ECONOMIC RESEARCH, WASHINGTON, DC; DAVID R. HENDERSON, JOHN M. OLIN VISITING PROFESSOR, WASHINGTON UNIVERSITY, ST. LOUIS, MO; WILLIAM P. FISHER, EXECUTIVE VICE PRESIDENT, NATIONAL RESTAURANT ASSOCIATION, WASHINGTON, DC; AND ROBERT CHLOPAK, CHLOPAK, LEONARD, SCHECHTER, AND ASSOCIATES, WASHINGTON, DC

Mr. GRUBER. Thank you. I would like to thank the committee for allowing me to be here.

I am an assistant professor of economics at MIT. I think the essential feature of most proposals to reform the health care system is the mandated employer provision of health insurance. This provision has attracted much criticism on the grounds that forcing employers to offer insurance to their previously uninsured employees will cause massive disemployment.

This criticism has been levied most stridently by the service industries, such as fast good restaurants, and the purpose of my testimony is to argue that this criticism is misplaced and that all of the compelling economic evidence suggests that the job loss from an employer mandate, if any, is likely to be minimal.

Now, the logic behind the disemployment claims for an employer mandate, for firms which do not currently offer health insurance, is that these firms will see their cost of compensation rise, and as a result, they will lay off a large number of workers. The key question then becomes, will the cost of compensation really rise at these firms. My answer is that it will not, because these increased costs of health insurance will be shifted to workers' wages.

If the total cost of compensation in the firm does not rise, then there will be no need for the firm to lay off workers, and there will be little job loss from an employer mandate.

My answer is supported by two studies which I have done, looking at the past experience of the United States with employer mandates of this variety. In one study which I co-authored with Alan Krueger of Princeton University, we looked at the effect of large increases in the cost of workers' compensation insurance, the oldest mandated benefit in the United States on wages and employment. These cost increases were much larger, or at least of the same magnitude, than the proposed cost of health insurance under, for example, this committee's plan. They exceeded 10 percent of payroll for some industries in some States.

Yet we found that all of these cost increases, or almost all of them, were passed on to workers' wages, so that there was little net rise in the cost of compensating workers, and as a result—and I think most importantly for this hearing—we found no significant effect on employment from these greater than 10 percent increases in workers' compensation costs over a decade period.

In a similar study, I looked at the effect of increased costs of providing health insurance to women of childbearing age when the Federal Government and State Governments mandated that employers provide that health insurance in their health insurance packages. These laws represented a sizeable increase in the costs of employing women of childbearing age. Yet once again, I found that this cost was shifted to their wages and that there was no effect on the employment of this group.

So I think both of these studies provide evidence that previous similar U.S. mandates did not do anything to reduce employment in the U.S. economy.

The second point I want to address is that despite these economy-wide findings, there is still reason to worry that there will be especially large disemployment effects in low-wage industries such as fast food restaurants, because these industries pay the minimum wage. If you pay the minimum wage, then it is impossible to pay your workers less when the Government forces you to provide health insurance, and that leads to the fear that has been expressed that these firms will have to lay off their workers.

I think there are three reasons to suspect that this is not an important problem. First of all, only 30 percent of the full-time uninsured workers at fast food restaurants earn the minimum wage. Most uninsured workers earn substantially above the minimum wage, so there is no problem with the minimum wage getting in the way of shifting to wages, and no reason for the firms to lay these workers off.

Second, even for those workers at the minimum wage, the increased cost of health insurance is likely to be quite small. This is because all the employer mandate plans that have been proposed include subsidies to reduce the cost of this insurance to workers. Under this committee's plan, I estimate that the average cost increase for a minimum wage worker, given these subsidies of different sizes, will be less than 33 cents per hour.

Third, recent evidence suggests that minimum wage increases of a much larger magnitude than this do nothing to reduce employment at these very kind of fast food industries. Perhaps the most compelling evidence comes from a study by David Card and Alan Krueger of Princeton University, who found that when New Jersey raised its minimum wage by 80 cents in April 1992, there was no fall in employment in the fast food industry.

This study is important, because it focused explicitly on the kind of industry that we are discussing today, which is fast food. And the minimum wage increase of 80 cents was more than twice as large as the increase that we will see from this committee's plan.

So the evidence suggests that even for low-wage industries, large increases in cost will not lead to job loss.

Finally, let me conclude by nothing that there are several other studies which have thrown out enormous figures for the number of

jobs that will be lost from these kinds of employer mandates. I think these studies all make one common mistake, and that mistake is they assume that the cost of employer compensation will rise for many workers when the mandate is put into place.

As I have tried to emphasize, the cost of compensation will not rise overall, so there will be no reason for firms to lay off their workers. And when you take these studies and make that more realistic assumption, in fact, the job loss estimates are much less than one-quarter of the job loss estimates that have been thrown around.

So in closing, the main point I want to emphasize is that the fears of large-scale disemployment effects are really misplaced. Previous economic research consistently shows that increases in the cost of mandated employer benefits do not result in large job losses either for the work force as a whole or explicitly for low-wage industries such as fast food restaurants.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Gruber follows:]

PREPARED STATEMENT OF JONATHAN GRUBER

A central feature of most proposals to reform the health care system is mandated employer provision of health insurance. This provision has attracted much criticism, on the grounds that forcing employers to offer insurance to their previously uninsured employees will cause massive disemployment. This criticism has been levied most stridently by the service industries, such as fast food restaurants. The purpose of this testimony is to argue that this criticism is misplaced: all of the compelling economic evidence suggests that the job loss from an employer mandate, if any, is likely to be minimal.

General Employment Effects of an Employer Mandate

The logic behind the disemployment claims is that firms which do not currently offer health insurance, but which will be mandated to do so, will see their costs of compensation rise, and will as a result lay off a large number of workers. The key point is that, for these firms, the extent to which the costs of this health insurance can be shifted to their workers' wages. If full shifting takes place, then the total cost of compensation to the firm will not rise, and there will be need for the firm to lay off workers. If it does not, then compensation costs will rise, and there will be layoffs.

Both economic theory and past empirical evidence suggests that, in fact, there will be little job loss in the medium-long run because there will be no net rise in the cost of compensation. In one study which I coauthored with Alan Krueger of Princeton University, we looked at the effect of large increases in the costs of workers compensation, the oldest mandated benefit in the United States, on wages and employment. These cost increases larger than the proposed cost of health insurance under most employer mandate plans; they exceeded 10 percent of payroll for some industries in some States. Yet we found that over 85 percent of the cost increase was passed onto workers wages, so that there was little net rise in the cost of employing workers due to workers compensation. As a result, we found no significant effect on employment of increased workers compensation costs.

In another study, I looked at the effect of increased cost of health insurance for women, through State and Federal provisions which mandated the comprehensive coverage of childbirth expenditures in the 1970s. This represented a sizeable increase in the cost of employing women of child-bearing age. Yet, once again, I found that this cost was fully shifted to their wages, with no effect on their total labor supply.

To summarize, we now have evidence from two "case studies" of the experience of the United States with previous employer mandates. Both of these studies provide compelling evidence that employer mandates will result in little job loss for the overall U.S. economy.

A related piece of evidence comes from an examination of the effects of implementing National Health Insurance in Canada. While financed out of general revenues, rather then by an employer mandate, the Canadian case nevertheless illustrates the potential effects of the government mandating universal insurance coverage. In a recent study with Maria Hanratty of Princeton University, I found that

the implementation of National Health Insurance actually led to increases in employment in Canada in the late 1960s and early 1970s. This suggests that the benefits of universal coverage for the economy, such as through reducing fears of "job-lock", can potentially outweigh any employment costs from financing this coverage.

Specific Employment Effects in "Low Wage" Service Industries

Despite these economy-wide findings, there is reason to suspect that there will be especially large disemployment effects in "low wage" service industries. This is because many workers in these industries earn the minimum wage. If a worker is earning the minimum wage, then the costs of health insurance, by definition, cannot be shifted to their wages. Thus, there will be a rise in the cost of employing minimum wage labor with an employer mandate, and the potential for disemployment.

There are three reasons to suspect that this is not an important problem. First of all, only 30 percent of uninsured workers in the restaurant industry are earning the minimum wage. So for the majority of workers in this industry, the above evidence will apply, and there will be no reason to fear disemployment effects.

Second, even for those workers at the minimum wage, the increase in the costs of compensation are likely to be small. This is because all of the employer mandate plans that have been proposed this far include large subsidies for small and low wage firms. The Clinton plan features subsidies which were a function of average firm payroll and firm size. This committee's plan uses instead subsidies which are a function of the individual worker's wage, as well as firm size. I should note in passing that this is a major improvement over the structure of the subsidies in the Clinton plan. This is because by subsidizing firm payroll, the Clinton plan introduced incentives for firms to change their structure, splitting into small low or high wage firms. By subsidizing individual wages instead, this committee's plan achieves the goal of redistributing to lower wage workers in a more efficient manner.

Under this committee's plan, the most that an employer will pay for health insurance is 12 percent of an individual's wage. For smaller firms, this rise will be much lower, with only a 1 percent increase in compensation costs for firms below 5 employees. This means that for minimum wage workers, the costs of compensation will rise by at most 51 cents per hour. for most minimum wage workers, the cost rise will be much less, as 76 percent of uninsured minimum wage workers work in firms below 100 employees. Due to the subsidies for smaller firms, I estimate that the average cost increase for uninsured minimum wage workers under this committee's plan will be only 33 cents per hour.

Third, recent evidence suggests that minimum wage increases which are of a similar (or larger) magnitude have no effect on employment, even in service industries. A large number of recent studies have shown that increases in the minimum wage in the 1980s and 1990s did not cause any fall in employment. Perhaps the most compelling finding comes from a study by David Card and Alan Krueger of Princeton University, who found that when New Jersey raised its minimum wage by 80 cents in April, 1992, there was no fall in employment in the fast food industry. This minimum wage increase is much larger than the cost increase for any minimum wage employee under this committee's plan.

This study is important because if focused explicitly on the fast food industry jobs which are supposedly most "at risk" from the Clinton plan. Furthermore, it confirmed earlier findings from a similar study by Krueger and Lawrence Katz of fast food restaurants in Texas when the Federal minimum wage increased. So the evidence suggests that even for the low wage industries such as the fast food industry, large increases in the cost of employing low wage labor does not lead to layoffs. Thus, a similar rise in the cost of such labor under a mandate should have little disemployment effect.

Previous Studies

I should note that several other studies have stated that there will be very large job losses from an employer mandate. These studies all make one common mistake: they assume that the cost of employer compensation will rise for many workers when the mandate is put into place. As I have tried to emphasize, all of the previous available evidence suggests that this is a poor assumption. If one assumes instead that the cost will be shifted to wages for workers above the minimum wage, the job loss is less than one-quarter as large as that found by these studies.

Furthermore, these studies make two additional mistakes. First, in their job loss estimates the studies consider both full and part time jobs. In fact, many of the jobs lost will be part time. Second, they assume that there will be no job gains from the lowered cost of health insurance to the majority of firms that do now provide insurance coverage. Such lowered costs will arise in the short run through subsidies and reduced administrative costs of insurance through pooling, and (potentially) in the long run through lower health care costs. In fact, over 1 million minimum and near

minimum wage workers now work in firms that offer health insurance; these workers will benefit from the proposed reforms to the health insurance system.

Once again, I think that these lower costs will be reflected in increased wages at firms that already offered insurance coverage. But it is wrong to assume, as those studies do, that increased cost of insurance at some firms will lead to job losses, while reduced costs of insurance at others will not lead to job gains. The appropriate solution to this problem is to say that there will not be important job losses or gains in either case.

In closing, the main point that I want to emphasize is that the fears of large scale disemployment resulting from an employer mandate are misplaced. Previous economic research consistently shows that increases in mandated employer costs simply do not result in large job losses, either for the workforce taken as a whole, or for minimum wage workers more specifically.

The CHAIRMAN. Mr. Henderson.

Mr. HENDERSON. Thank you, Mr. Chairman.

I request that my full written statement be included in the record as if read.

The CHAIRMAN. It will be so included.

Mr. HENDERSON. Thank you.

A Government mandate that employers pay for their employees' health insurance will have three main effects. First, workers' wages will fall, as my colleague has just pointed out. Second, some workers will lose their jobs. And third, the volume of goods and services produced will fall, causing prices to rise.

The main people who pay for employer-provided mandates are employees. And if you notice, there is no difference between us on that. They pay either by having their wages cut, or to the extent wages are not cut, by being thrown out of work.

Why are we so sure that mandates reduce wages and destroy jobs? Because when a benefit is mandated, someone has to pay for it. If the benefit was already provided, not much effect. But if the employer had not been providing health insurance, the mandate will have an effect.

The fact that the employer pays for the mandated benefit does not magically make the employee more productive. With productivity unchanged, the costly benefit now becomes part of the pay package, and other components of the package must change. One of the main components is pay.

How much will it fall? His colleague Alan Krueger, whom he referenced, found that for every dollar of mandated cost increases in one program, pay fell by 83 cents. That is in the ball park of most estimates. Thus the cost of the mandate is almost entirely put on the backs of workers.

This finding is not controversial. Economists, whether or not they believe in mandates, do not kid themselves that employers pay for them. David Cutler, who defended employer mandates at the annual meetings of the American Economic Association, and who at the time was the senior health economist with President Clinton's Council of Economic Advisers, agrees. He agrees that workers will have their pay cut.

The Congressional Budget Office in its studies on mandates also agrees, and the Clinton administration itself agrees that employees pay almost the whole cost of employer mandates.

A mandate for employer-provided health care causes a larger percentage drop in pay for those with low pay. Someone earning

$12,000 a year, for example, would be robbed of 14 percent of his income.

Let me correct one widely-held misconception that came up earlier this morning. What matters is not whether the worker works in a small firm or a large firm. They key is the worker's wages. Employees in small firms that pay high wages and provide health insurance are not much affected, but employees in large firms that pay low wages and do not provide insurance are hurt.

Now we come to the second effect of mandates. To the extent that pay and other components of the pay package do not fall, employment will. The mandate will destroy jobs. It will especially destroy jobs of low-wage workers whose wages cannot fall below the minimum wage. By one estimate, the Clinton plan would destroy about 800,000 low-wage jobs, and that is with the Clinton subsidies taken account of.

What about the overall impact on jobs? According to the O'Neill study, the Clinton plan, with subsidies totally $40 billion a year to cushion the impact, would still destroy 500,000 to 900,000 jobs. The O'Neills estimate that without those subsidies, the Clinton plan would destroy over 2 million jobs.

One of the most optimistic studies, done by Krueger, finds that the Clinton mandate, with the cushioning subsidies, would still destroy 200,000 to 500,000 jobs. So the low end of the O'Neill estimate coincides with the high end of the Krueger estimate, and they are supposed to be on opposite sides of this. Not bad for an imperfect science.

Interestingly, the President's own chief economist, Laura Tyson, said last October that the Clinton health plan could destroy 600,000 job. Dr. Tyson dismissed the importance of these lost jobs by saying, "Plus or minus half a percentage point of total employment is basically a rounding error." It is small comfort to the potentially half million people thrown out of work to be told that they are a rounding error.

Finally, I want to comment on a recent report by the lobby called the Health Care Reform Project. Their report points out that Pizza Hut and McDonald's oppose mandated health insurance in the United States and also comply with similar laws in Europe. The report claims that the companies are practicing a double standard. The report is sneeringly titled, "Do As We Say, Not As We Do." But there is nothing hypocritical whatsoever about those two companies' reported actions. Because governments require health insurance in Europe, Pizza Hut and McDonald's comply.

Pizza Hut and McDonald's would be hypocritical only if they advocated employer mandates in Europe. My guess is they do not. An accurate title for the report would have been, "Do As We Say, Not As We Are Forced to Do."

Personally, I am glad that the Health Care Reform Project raised the example of European workers. There is a lesson to be learned from Europe, but it is the exact opposite of the one the report draws. Between 1970 and 1990, U.S. Governments were much more modest than their European counterparts in imposing mandates on employers. The result—real labor costs in the United States rose by only about 10 percent, while the number of jobs soared by 52 percent. During those same 20 years, governments in

the European Community have added many mandates on employers. The result—the ratio was reversed. While real labor costs in Europe rose by 60 percent, employment rose by only 10 percent.

Europe as a whole has failed to create any net new jobs in the private sector over the past 20 years. The only job growth was in Government bureaucracies. This should not be surprising. Basic economics says that when you raise the cost of doing something, people do less of it. That is true of hiring, also. That is what makes the European example so stunningly inappropriate for those who want to defend employer-mandated health insurance. If a mandate is imposed, then to the extent wages do not fall, employment will.

Many of the people who advocate employer mandates believe themselves to be truly humanitarian. It is humanitarian to spend your own money to provide health care for poor people. But there is nothing humanitarian at all about forcing poor people to spend their money on health insurance when they have other more pressing concerns such as groceries and rent.

Thank you.

[The prepared statement of Mr. Henderson follows:]

PREPARED STATEMENT OF DAVID R. HENDERSON [1], PH.D.

Mr. Chairman and members of the committee, I am currently the John M. Olin Visiting Professor at the Center for the Study of American Business, Washington University, in St. Louis. I am on leave from the Naval Postgraduate School in Monterey, CA, where I am an associate professor of economics. Previous to that, I was senior economist for health policy with the President's Council of Economic Advisers. I am also the editor of The Fortune Encyclopedia of Economics. [2]

I have been asked to testify on the effect of mandating that employers provide health insurance for their employees. the analysis of the effects of employer mandates is straightforward Economics 101. A government mandate that employers pay for their employees' health insurance will have three main effects. First, workers' wages will fall. Second, some workers will lose their jobs. Third, the volume of goods and services produced by workers falls, causing prices of these goods and services to rise. If that is all that economics could tell us, that would be a lot. It directly contradicts the myth that the main people who pay for employer-funded mandates are employers. Certainly, owners of firms lose because mandates act as a tax on capital formation. But the main people who pay for employer-provided mandates are employees. They pay either by having their wages cut or, to the extent wages are not cut, by being thrown out of work.

Why are economists so sure that mandates reduce wages and destroy jobs? The reason is that when a health care benefit is mandated, someone has to pay for it. If the benefit was already provided, the mandate has no effect unless the government mandates something different from what was being provided.

But, had the employer not been providing the benefit, then the mandate will have an effect. The fact that the employer pays for the mandated benefit does not magically make the employee more productive. With the employee's productivity unchanged, and with the costly mandated benefit now being part of the employee's pay package, other components of the package must change. These other components include pay, vacation time, and other amenities on the job. The main impact of a mandate is likely to be a reduction in pay. (In practice, that often means foregone wage increases.) How much of a reduction? For every one dollar of cost for mandated health insurance, according to Princeton University economist Alan Krueger, employees lose about 83 cents in pay. [3] This is in the ballpark of most estimates. in a separate study of the workers' compensation program, Jonathan Gruber and Alan Krueger found that for every $1 spent by employers, 80 to 100 cents comes out of

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[1] The views expressed in this testimony are my own and do not necessarily represent those of the Center for the Study of American Business or the Naval Postgraduate School.

[2] David R. Henderson, ed., The Fortune Encyclopedia of Economics, New York: Warner Books, 1993.

[3] See Alan B. Krueger, "Observations on Employment-Based Government Mandates, With Particular Reference to Health Insurance," Princeton University, Economics Department, unpublished ms., October 15, 1993, p. 22.

workers' wages.[4] Thus, the cost of the mandate is almost entirely put on the backs of workers. This finding is not controversial. Economists, whether or not they believe in employer mandates, do not kid themselves that employers pay for them. David M. Cutler, who defended employer mandates at the annual meetings of the American Economic Association, and who was until recently a senior economist with President Clinton's Council of Economic Advisers, agrees with this finding. In his words, "Most of these cost changes are likely to show up as changes in wages"[5] The Congressional Budget Office, in its studies of mandates, and the Clinton administration itself, agree that employees pay almost all the cost of employer-provided mandates.

The reduction in employees' pay depends on the cost of the mandate, not on the employee's income before the mandate. So, if the mandate costs, say, $2,500 and the employer is required to pay 80 percent of that, or $2,000, then, by Krueger's estimate, the employee's pay would fall by 83 percent of $2,000, or about $1,660. On top of that, of course, the mandate will force the worker to pay $400 in after-tax income for his or her share of the cost. Now, $1,660 a year is not a large sum for someone earning $60,000 a year. That person's pay would fall by only 2.8 percent. Bt ironically that person is very likely to have employer-provided health insurance anyway, even before the mandate. The main detrimental impact is on the low-wage worker, who is less likely to have health insurance before the mandate, and for whom $1,660 is a large chunk of income. Fr a worker earning $12,000 a year, for example, the mandate would strip him of 14 percent of his income. For a worker earning only $10,000 per year, the mandate would strip him of almost 17 percent of his income.

Let me correct one widely held misconception. The key here is not whether the employee works in a small firm or a large firm. The key is the employee's wages. Employees in small firms that pay high ages and provide health insurance are not much affected. But employees in large firms that pay low wages and do not provide health insurance are affected.

Now we come to the second effect of mandates. To the extent that pay and other components of the pay package do not fall, employment will. The mandate will destroy jobs. After the mandate is imposed, employers and employees need to agree, explicitly or implicitly, to a pay cut. Otherwise, it will not be worthwhile for the employer to keep some employees. To the extent pay is not cut, employees will lose their jobs. Economists do not have a good idea of whether pay will adjust in 2 months or 2 years, but, whatever time that adjustment takes, during that time a large number of jobs will be lost.

Economists June O'Neill and Dave O'Neill, both at the Center for the Study of Business and Government at Baruch College, have done a careful study of this issue.[6] They point out that, in 1993, 19.9 million workers who were uninsured were making less than $6.50 an hour. Their average income was $6,172 because, on average, they were working part-time. By assuming that workers whose pay was below $6.50 an hour would not have their pay cut at all, they estimate that about 781.000 low-wage workers would lose their jobs because of the originally proposed Clinton mandate.

What about the overall impact on jobs? As you might expect, because economics is an imperfect science, the estimates vary. But two things emerge clearly from the studies of job loss. First, almost all the studies find a job loss. Second, most of the studies find a substantial job loss. According to the O'Neill study, the original Clinton plan, with subsidies totalling $40 billion a year to cushion the impact, would destroy about 500,000 to 900,000 jobs. The O'Neills estimate that without these large subsidies, the Clinton plan would destroy about 2.1 million jobs.

One of the most optimistic studies, done by Krueger, finds that the Clinton mandate, with the cushioning subsidies, would destroy about 200,000 to 500,000 jobs. So the low end of the O'Neill estimate coincides with the high and of the Krueger estimate. That's not bad for an imperfect science.

Interestingly, the President's own chief economist, Laura Tyson, said last October that the Clinton Health Plan could destroy as many as 600,000 jobs. Dr. Tyson dismissed the importance of these jobs destroyed by saying: "Plus or minus half a per-

[4] Jonathan Gruber and Alan Krueger, "The Incidence of Mandated Employer-Provided Insurance: Lessons from Workers' Compensation Insurance," in David Bardford, ed., Tax Policy and the Economy, vol. 5, Cambridge, MA: MIT Press, 1991.

[5] David M. Cutler, "A Guide to Health Care Reform," Harvard University, unpublished ms., February 1994.

[6] See June E. O'Neill and Dave M. O'Neill, "The Employment and Distributional Effects of Mandated Benefits," Washington, DC, American Enterprise Institute, 1994.

centage point of total employment is basically a rounding error."[7] It is small comfort to the potentially half-million people who could be thrown out of work to be told that they are a rounding error.

I would like to comment on the recent report by a lobby called the Health Care Reform Project. Their report points out that PeposiCo's Pizza Hut subsidiary and McDonald's have both opposed employer mandates in Europe. The report claims that the companies are practicing a "double standard" and sneeringly title their report, "Do As We Say, Not As We Do." But there is nothing hypocritical whatsoever about these two companies' reported actions. Because governments require employer-provided health insurance in Europe, Pizza Hut and McDonald's comply with the mandate.

Pizza Hut and McDonald's would be hypocritical only if they advocated employer mandates in Europe but not in the United States. If they had their druthers, they would probably abolish employer mandates in Europe as well as avoiding them here. If the law required truth in lobbying, the Health Care Reform Project would be found guilty. An accurate title for its report would be "Do As We Say, Not As We Are Forced to Do."

But personally, I'm glad that the Health Care Reform Project raised the example of European workers. There is a lesson to be learned from Europe, but it is the exact opposite of the one the report draws. Between 1970 and 1990, U.S. Governments—at the Federal and State levels—were much more modest than their European counterparts in imposing mandates on employers. The result: real labor costs in the United States rose by only about 10 percent while the number of jobs soared by 52 percent. during those same 20 years, governments in the European Community have added many mandates on employers.[8] The result: the ratio was reversed. While real labor costs in the EC rose by 60 percent, employment rose only 10 percent. Indeed, Europe as a whole has failed to create any net new jobs in the private sector over the past 20 years; the only job growth was in government bureaucracies.[9]

This should not be surprising. Basic economics says that when you raise the cost of doing something, people do less of it. This is true whether the activity is driving, flying, or hiring. That's what makes the European example so stunningly inappropriate for those who want to defend employer-mandated health insurance. If a mandate is imposed, then, to the extent that wages do not fall in response to the mandate, employment will.

Many of the people who advocate employer mandates believe themselves to be truly humanitarian. It is humanitarian to spend you own money to provide health care for poor people. But there is nothing humanitarian at all about forcing poor people to spend their own money on health insurance when they have other more pressing concerns.

The CHAIRMAN. Dr. Fisher.

Mr. FISHER. Good afternoon, Mr. Chairman. I am Bill Fisher. I am the executive vice president of the National Restaurant Association. We are a full-service trade association, representing 25,000 member companies that operate over 150,000 establishments throughout the country. And I speak for all of them when I say that the treatment received by two of our members—Pizza Hut, who was here in person, and McDonald's, who was invited, but was refused entry by one of their vice presidents—this past week is really an affront to our entire industry.

The CHAIRMAN. Well, are you defending their position in intimidating television stations from running that ad, which the president of Pizza Hut said was all right?

Mr. FISHER. I do not know what went on behind there; I have not seen the letter.

The CHAIRMAN. Well, that is the issue, that is the issue.

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[7] See Rick Wartzman and Hilary Stout, "White House Aide Says Health Reform May Cause Some Job Loss in Early Years," Wall Street Journal, October 7, 1993.

[8] For more on this, see David R. Henderson, "The Europeanization of the U.S. Labor Market," The Public Interest, Number 113, Fall 1993.

[9] See Peter Gumbel, " Western Europe Finds That It's Pricing Itself Out of the Job market," Wall Street Journal, December 9, 1993, p. A1.

Mr. FISHER. No. I think that the issue here is that the Health Care Reform Project chose to target two companies that are very reputable companies in this industry and have done a lot for their employees, and unfortunately, the whole debate is now descending to the corporately personal. It really is corporate character assassination.

Now, I am not defending them, because I cannot, because I do not know what went on behind it——

The CHAIRMAN. Well, you just did; you were defending them.

Mr. FISHER. I am saying it is an affront to our entire industry.

The CHAIRMAN. Well, does your industry support intimidating advertising on television what even the president and CEO of Pizza Hut has said was fine?

Mr. FISHER. Our industry was, of course, presenting our story in terms of what we believe is the case with health care. Now, we oppose health care mandates, and we understand that you are on the other side of it. But we think that there is a level at which we can do that that has the intellectual high ground, and we are thinking that that has now been breached by the Health Care Reform Project, which came forward with this particular ad.

The CHAIRMAN. You do not think it was breached when they intimidated the television stations from running that ad? You do not think that that was the breach?

Mr. FISHER. You are assuming that the television stations were intimidated. I do not know——

The CHAIRMAN. Well, did you read the letters?

Mr. FISHER. Yes, sure.

The CHAIRMAN. And they all chose not to run that; and you do not call that intimidation?

Mr. FISHER. What was the reason that they chose not to run it? As I read one of the statements from one of the gentlemen representing the stations, he said, we do not want to get this into a personal attack of one group against the other. It may not have been the intimidation of libel; I do not know. I do not know what was in the ad, so I am unable to speak to that.

The CHAIRMAN. Well, that is part of the reason that this whole issue has come up, quite frankly. But let us go ahead.

Mr. FISHER. OK. I want to make another point, if I may, a couple of other points, if I may, in my 5 minutes.

The CHAIRMAN. We will give you a little extra time.

Mr. FISHER. Thank you.

The conditions that do exist in Germany are really different from what exists in the United States. A comparable pizza would be $19 in Germany, at $11, as you see in the charts, and the gentleman before me alluded to that. I think you, Senator, or someone, mentioned that it was only 8 percent of the gross domestic product of Germany was spent for health care, and in this country, it is 14 percent. But what he did not say was that the payroll tax is 13.4 percent in Germany for that particular social program, and when that started back in 1950, that was at 6 percent. What has happened in Germany is that it has progressively increased now to a level of 13.4 percent. And I think this is what has our industry and indeed, a lot of small businesses, very concerned, that once a per-

centage were to be in place, it would consistently move upward and therefore, drive a lot of our companies out of business.

Germany has an income tax bracket of nearly 60 percent; ours is 39.6 percent, if you take the 10 percent surtax on 36 percent. The menu prices are about 39 percent higher. The business growth in Germany has been stagnant, and the——

The CHAIRMAN. Dr. Fisher, I apologize, but I have 3 more minutes to get to the vote. I expect Senator Kassebaum to come in and she will continue the hearing, and I will get back in a few moments.

So we will recess for a few minutes.

[Recess.]

Senator KASSEBAUM [presiding]. The meeting will please come to order. Senator Kennedy said I could chair if I would be nice. He will be back from voting in just a minute, but, Dr. Fisher, am I right, we are in the middle of your testimony?

Mr. FISHER. Yes, but I would be pleased to start at the very beginning for your benefit, Senator.

Senator KASSEBAUM. No, no. Please go ahead.

Mr. FISHER. I was saying—and I had only 5 minutes, although Senator Kennedy granted me a little bit of an extension—that we think it is really somewhat deplorable for the Health Care Reform Project to try to compare what occurs in Germany with the cost of pizza here, because the conditions are really different, and that was made clear, I think, in several areas as well.

I will use the rest of my time, actually, to pick up on some things that I think you heard, and I know the other members, Senator Coats and Senator Simon, may have come in at different times. But one of the statements, as I understood it, that was made by Deborah Accuardi this morning was that she spends 12 percent of her operating budget on health care. Did you hear that as well?

Senator KASSEBAUM. Yes.

Mr. FISHER. And she pays 50 percent of the health care. Now, the numbers that I would run are that if she were paying 100 percent, she would have 24 percent of her operating budget that would be going for health care. Under the President's plan, he wants employers to pick up 80 percent of the health care. So that would be 20 percent of her operating budget were that plan to be in effect that would slam against her operating statement.

Now, with the food service industry, where you have a multiplicity of different kinds of restaurants, with different profit margins, and they average out after tax at 3 or 4 percent, if you slam 20 percent of the costs against that, you are going to sink a lot of business. So if you put that kind of a cost percentage against a business such as that, you are really going to have great unemployment, and you are going to have a lot of people go out of business.

Again, let me give you some other numbers, and we can always look at individual cases. I have heard 6 cents per pizza, and I have heard 40 cents per pizza, and so on. But if the cost of single coverage per employee might be $1,700 per year, and if——

The CHAIRMAN. I do not know where you get that figure.

Mr. FISHER. OK. Well, give me a figure.

The CHAIRMAN. It is basically, I think, rounded out at $2,000 for an adult and $1,000 for an individual.

Mr. FISHER. One thousand for an individual, okay.

The CHAIRMAN. One thousand for a child, one person.

Mr. FISHER. All right. Let me use $1,000, because I think the numbers are pretty easy to follow in this regard. If the cost were $1,000, and I had to absorb $1,000 on my income statement, and I have a 2 percent profit margin, my capitalization of that is that I have to generate $50,000 in additional revenue to cover that $1,000 at a 2 percent profit margin.

Now, do you want to take me to a 4 percent profit margin? That is fine. I still have to generate another $25,000 in revenue. Now, for eating out, people use their disposable income. And there always is an alternative—we do not like to admit it very often, but there really is—they can eat at home. We prefer that they do not do that. But you are going to price some people out of the market—you saw the cost ratios that the previous speaker gave us, that there is an elasticity of demand. So we would simply say that when people say it is only going to be 40 cents per pizza, or it is going to be 6 cents per pizza, or it is going to be 5 cents per hamburger, whatever that might be, you have got to look at the aggregate numbers.

And by the way, one of the things that scares our industry greatly is that that is the amount for openers, that the cost of health care could continue to go up and up. I have never seen, and maybe you can enlighten me on this, but I have never seen a Government social program that went down in spending, either in absolute terms or in percentage terms.

So as we look to the future, the companies will survive, sure, but we will be cutting employment, and that is not what we think is in our industry's best interest.

I will yield to somebody else who wants to ask me some questions.

[The prepared statement of Mr. Fisher follows:]

PREPARED STATEMENT OF WILLIAM P. FISHER

I am Bill Fisher, executive vice president of the National Restaurant Association, a full-service trade association representing 25,000 member companies that operate 150,000 establishments across the Nation. I speak for all of them when I say that the treatment received by two of our members, Pizza Hut and McDonald's last week was an affront to the entire food service industry.

An attack was made on these two companies because they have stated their opposition to legislation that would cripple our business. That attack amounts to corporate character assassination, and that is not the way public debate should be conducted in a democratic country.

Because of the views expressed by these two companies, proponents of the President's health care proposals are encouraging operatives everywhere to picket their units presumably in an attempt to alienate their customers. Full-page advertisements are also being run that bring allegations against these companies.

And what about these allegations? They are at best half-truths that obscure the reality. American corporations that operate in European countries abide by the laws of those countries. If there are mandates that require employers to pay for health insurance in those countries, they comply. That is the case with Pizza Hut's operations in Germany. That is the half-truth that has been used to malign the company.

What is the other half of the story? A pizza costing $11 in this country costs $19 in Germany. Labor costs contribute significantly to this higher price.

—Germany's health care system requires a payroll tax of more than 13.4 percent—higher than the 7.9 percent cap promised under the Clinton health care plan. When Germany's system of mandated employer benefits began in 1950, payroll taxes of just 6 percent were set.

—In Germany the top income tax bracket is nearly 60 percent. in the United States, it is 39.6 percent.

—Menu prices are 39 percent higher in Germany than they are for comparable items at home.

—Business growth is stagnant in Germany. Last year, economic growth actually declined 1.2 percent. Indeed, according to the Organization for Economic Cooperation and Development, the 12 countries of the EC have not experienced a net addition to private sector employment in 20 years. The only job growth has come in government bureaucracies.

At a time when Germans are considering the need to reform their approach to health care, the administration has made proposals that seem modeled on the German system.

It is interesting that when the allegations brought against Pizza Hut and McDonald's are examined in their actual context, a strong argument against the Clinton health care proposal emerges. The President's plan and legislation modeled on it are likely to inflate consumer prices across the Nation.

The restaurant industry, like many businesses in this country, has been a longstanding proponent for fundamental, free-market reforms that would make health care more affordable, not less. The National Restaurant Association has lobbied extensively for such measures as allowing small businesses to join together in purchasing pools; allowing businesses to take a 100 percent tax deduction for health insurance; eliminating pre-existing exclusions; reforming malpractice laws; eliminating costly State-mandated health benefits; and developing a computerized, standardized claims system.

The association has consistently opposed an employer mandate—the alinchpin of the Clinton plan—because it would artificially raise the cost of labor beyond a viable level for most employers in the low profit margin, labor-intensive restaurant industry.

In the end, an employer mandate is a tax on workers, pure and simple—and U.S. workers will end up paying with their jobs.

The CHAIRMAN. Just before we hear from Mr. Chlopak, there is another area as well, and that is the difference between the CEOs in PepsiCo and McDonald's, and how their salaries have gone right up through the roof, and what has happened in terms of the restaurant workers. That is pretty interesting. You know, there is always enough money in there to raise the salaries of the CEOs, but there is not much in there to take care of the restaurant workers. There have been dramatic increases in the period of the last 5 to 7 years, and they are always talking about how any little nickel or dime or quarter or 50 cents, in terms of trying to help men and women in this country who want to work not have to be in poverty. That is something that has been basically supported by both Republicans and Democrats, quite frankly, over a long period of time, and that is the minimum wage law.

And what we have seen happen is that restaurant workers, the workers at the bottom rung of the ladder, have just been locked in there, while the CEOs' salaries have gone right up through the roof. So there are other alternative ways of trying to squeeze this thing down.

Mr. FISHER. Senator, I would address that. The last time I looked, this really was a semi free enterprise system. And people take different positions, and they rise according to their ability. And if the marketplace can afford to pay somebody at a certain level, then I think that that is what that individual commands.

The CHAIRMAN. Well, I think that is right—the law of the jungle is the law of the jungle, but I did not think that should be the case in a society that is a caring society and cares about its fellow human beings. You have stated your philosophy, and I stand by mine.

The CHAIRMAN. Mr. Chlopak.

Mr. CHLOPAK. Thank you.

Mr. Chairman, Senator Kassebaum, I am the president of Chlopak, Leonard, Schechter, and Associates, a small public policy and communications consulting business here in Washington.

In August of 1993, we were retained by the Health Care Reform Project, a nonprofit coalition of organizations representing health providers, consumers, older Americans, children, union workers, and many businesses.

Let me explain why we did this report. About 7 months ago, a PepsiCo executive, David Scherb, told the House Ways and Means Committee that an employer mandate would cause the loss of "tens of thousands of job opportunities at its restaurants." In that same testimony, he also said that an employer mandate could wipe out more than half of PepsiCo's restaurant profits.

Recently, PepsiCo and McDonald's, through a coalition called the Health Care Equity Action League, also released a study that said the employer mandate would result in over $27 billion in lost compensation—$27 billion.

We thought these predictions sounded a bit extreme, yet they were having an adverse impact on the debate, from our point of view, so we decided to take a look at the public record and look at how Pizza Hut and McDonald's were performing under shared responsibility requirements in other countries.

What we found is that both Pizza Hut and McDonald's are not only surviving, but are actually thriving in overseas markets, where they are required by law to pay for health insurance. Both companies entered these foreign markets voluntarily, knowing health coverage was required. Today, both companies are selling pizzas and burgers to Japanese and European consumers. They are opening new restaurants, they are adding jobs, and increasing revenues in these countries.

They are not downsizing, as they have left the impression with the Congress, because they have to pay to help cover their employees. It is just the opposite—they are growing.

Let me give you some numbers. Japan is such a strong market for Pizza Hut that the company in 1992 publicly stated its intention to boost the total number of Pizza Huts there 3½ fold within 5 years. And since the time of that statement, when there were 33 stores in Japan, based on public records, we now understand, less than 2 years later, there are 65 stores in Japan.

Likewise, in Germany, Pizza Hut's revenues climbed 38 percent over 2 years; employment grew 23 percent from 1992 to 1993. McDonald's experience abroad is equally positive.

Now, it has been alleged today that these are not major markets for these companies. I would just like to point out that there are 1,100 KFC restaurants in Japan, also owned by PepsiCo, and that in McDonald's own public filings, they indicate that Germany is one of its six largest markets.

Mr. Chairman, I will not read all of the details in our report, but I would request that the text of the report be entered in the record for those who would like to examine it.

The CHAIRMAN. It will be so included.

[Due to the high cost of printing, the report referred to is retained in the files of the committee.]

Mr. CHLOPAK. The United States is the home market for both companies, yet Pizza Hut does not pay to cover many of its hourly restaurant workers in this country. I think we have established that today.

We do not know the exact number or percentage of restaurant workers for whom Pizza Hut makes an insurance contribution, but we can be sure it is tiny. The company said in its House testimony that, based on a survey it conducted, only 14 percent of its restaurant employees take the insurance—and that is because they have to pay 100 percent of it—and, because of qualification requirements and turnover, the number for whom the company contributes is undoubtedly smaller still.

McDonald's does not pay for its hourly or part-time workers at all.

Now, Pizza Hut and its legal counsel responded to our report and to the 32nd ad you have seen today, first by accusing us of libel. I would just like to make clear, Mr. Chairman, that Clay Small, who is the general counsel of Pizza Hut, called me on the telephone on July 12th. The first letter we received from Pizza Hut was on July 13th. So this was the day before the letter was prepared.

In that phone conversation, he said that he understood that we were running an ad that was false and misleading and potentially libelous. I asked him what he understood the ad to say. He said that he understood the ad to say that we were claiming they did not offer insurance.

I told him that our claim was different than that, that it was that Pizza Hut did not pay for health insurance for many of their workers.

Nonetheless, 24 hours later, we got a letter from Pizza Hut, alleging that we were potentially libelling them by saying that our ad claimed that they did not offer insurance, which is different than what I told Mr. Small on the telephone.

A copy of that letter, as we now know, went to all of the local television stations. The intimidation strategy succeeded in keeping the ad off the air, but to this day, Pizza Hut has yet to prove that the ad or the report on which it is based is false, as the company has charged. And I think we now have the admission that the ad is essentially fair.

Pizza Hut has also accused us of unfair attacks. But I would point out that our study was a response to the active lobbying, testimony, and other political activities of PepsiCo and McDonald's, both of which sit on the steering committee of HEAL. These companies raised their own profiles in this legislative debate, and therefore, as members of this committee are well aware of and used to, we think it is entirely appropriate for us to compare their rhetoric here in Washington with the reality of their performance in the United States and around the rest of the world.

Finally, in recent days, the company has run an ad that the employer mandate would raise the price of an $11 American pizza to $19 or $25, which is what the company charges in Germany and Japan. I think it might also be useful to enter this ad in the record, because it does clearly suggest that the price of U.S. pizza will go up. The headline is "Sure, Pizza Hut is Mandated to Pay for Health in Germany, where an $11 Pizza Costs $19."

I think that is a pretty clear implication that the price will go up.

Our calculation, which the New York Times has validated today is that the cost is probably more likely to be 40 cents per pizza. And I would also add that while Mr. Huston in his testimony questioned the calculation, precisely the same calculation appears in Mr. Scherb's testimony, the VP for compensation at PepsiCo, which he gave before the Ways and Means Committee.

Mr. Chairman, I think consumers would gladly pay 40 cents more for pizza in return for universal health care, which would in turn stop cost-shifting, which by the way transfers $11 billion to manufacturers every year, and lower health spending at the same time for millions of middle-income families. As Pizza Hut and McDonald's have proven, shared responsibility works, and if these companies can pay for good health coverage for their foreign workers and still earn a good profit and expand, there is no reason to believe they could not or should not do the same for their American workers.

In closing, I believe the sensitivity in this debate to small business is appropriate. As a small business owner myself, I know how hard it is to build a successful enterprise. But please do not lose sight of the fact that large businesses like Pizza Hut and McDonald's, which have over 1,000 employees, employ over 20 percent of the working uninsured in this country. That is nearly 7 million American workers and their families.

There is no rationale, none whatsoever, for letting Pizza Hut and other large businesses continue to shift their health care costs to the rest of us.

Thank you. I would be happy to answer any questions.

[The prepared statement of Mr. Chlopak follows:]

PREPARED STATEMENT OF ROBERT CHLOPAK

Mr. Chairman and members of the committee, my name is Bob Chlopak and I am president of Chlopak, Leonard, Schechter and Associates, inc. It is a pleasure to appear before you today.

CLS, as it is known, is a small public affairs communications consulting business. In August 1993, CLS was retained by the Health Care Reform Project, a non-profit coalition comprised of organizations and businesses representing health providers, consumers, older Americans, children, union workers and, of course, business. Our job has been to provide the Project with strategic advice and assist them with advertising, media relations and other communications services relative to the health care reform debate. The Project has become the major pro-reform coalition with 45 organizational members representing around 65 million Americans. For the record, both CLS and the Project pay for health insurance insurance for our employees.

Today, I'd like to make three brief points. First, I will explain why we conducted the study on Pizza Hut and McDonald's. Second, I will summarize the major findings of the report. Third, I'd like to respond to critiques of the report.

About 7 months ago a PepsiCo executive, David H. Scherb, told the House Ways and Means Committee that the employer mandate would cause the loss of "tens of thousands" of job opportunities at its restaurants. In the same testimony Mr. Scherb said the mandate would wipe out more than half of their restaurant profits if PepsiCo took no other action.

A little more than 3 months ago, PepsiCo and McDonald's, through a coalition called the Health Care Equity Action League, HEAL, released a study that said the employer mandate (in the Clinton plan) would result in over $27 billion in lost compensation.

So, we decided to take a look at these claims. We wanted to examine how these companies were performing under shared responsibly requirements in other countries at the very same time they were making a strong case against legislation pending in Congress. Our study was a response to the aggressive lobbying and political

activities of PepsiCo and McDonald's. These companies raised their own profiles in this debate; we didn't single them out. If there are victims in this debate, they are people like Rosie Rodriguez, a Queens, N.Y. Pizza Hut worker who told the New York Times she has to choose between paying her rent and going to the doctor, not multi-billion businesses like Pizza Hut and McDonald's.

What we found after 3 months of research, is that both Pizza Hut and McDonald's are not only surviving, but are actually thriving in overseas markets where they are required by law to pay for health insurance. Both companies voluntarily entered these foreign markets knowing health coverage was mandated, and today both companies are selling millions of pizzas and burgers to Japanese and European consumers. They're opening new restaurants, adding jobs and increasing revenues in these countries. They are in absolutely no danger of filing Chapter 11 or even downsizing because they must help pay to cover their employees.

More specifically, Pizza Hut which earned $37 million last year, is required to pay 50 percent of the health care premiums for its German employees and 50 percent for its Japanese employees who work at least 30 hours per week. Company officials in Japan told us most do work at least three quarter time. Still, business is booming. Japan is such a strong market for Pizza Hut that the company, in 1992, publicly stated its intention to boost the total number of Pizza Huts there 3½ fold within 5 years. Likewise in Germany, Pizza Hut's revenue climbed 38 percent over 2 years ago. Its German employment also grew substantially, rising 23 percent from 1992 to 1993.

Mr. Chairman, our report includes a lot more data and I'd like to request that it be inserted in the record.

McDonald's experience abroad is equally positive. In the past year, the number of McDonald's restaurants rose 14 percent in Germany, 18 percent in the Netherlands and 8 percent in Japan. Germany, in fact, is one of the company's six largest markets. It had 27,000 employees there in 1992 and revenues of nearly $1 billion.

The United States is obviously the biggest market for both companies. Yet Pizza Hut does not pay to cover many of its hourly restaurant workers in this country. Pizza Hut does make a bare bones group policy available, but employees must pay the full cost. Only after 6 months of continuous coverage and 100 percent payment by employees, and only if employees continue to pay 100 percent of basic coverage, will Pizza Hut make a small contribution to raise coverage limits. We don't know the exact number or percentage of restaurant workers for whom Pizza Hut makes an insurance contribution, but we can be sure it is small. Mr. Scherb indicated in his testimony that only 14 percent of these employees take the insurance. With turnover of 150 percent each year, many fewer will qualify for contributions from the company.

McDonald's does not cover its hourly or part-time workers, period.

Let me turn now to Pizza Hut's major criticism of our study included in their ad which ran in the Monday, July 18, Wichita Eagle. Pizza Hut says pizza which now costs $11 in the United States, will go up to $19 or $25 as the company now charges in Germany and Japan, respectively, if Congress enacts an employer mandate. But according to the company's own data, these huge price increases just don't add up. Scherb testified that labor costs account for roughly 30 percent of sales at its restaurants. Thus, under the Senate Labor Committee bill which caps health expenditures for low wage businesses at 12 percent, Pizza Hut would need only a 3.6 percent (30 percent of 12 percent) increase in the cost of pizza to cover its health insurance costs. that's an increase of just 40 cents per pizza, assuming all of the costs are passed on to consumers.

Mr. Chairman, we have a brief paper rebutting other false charge made about our report that I would like to insert in the record.

Let me conclude with one final thought. There is appropriate sensitivity in the health care debate to small businesses. As a small businessman, I know first hand how hard it is to build a successful enterprise. But please do not lose sight of the fact that large businesses like Pizza Hut and McDonald's (over 1,000 employees) employ over 20 percent of the working uninsured—that's nearly 7 million American workers and their families. There is no rationale for letting Pizza Hut and other large businesses continue to shift its health care costs to the rest of us, particularly since Pizza Hut could easily afford to cover its American workers, just like it covers its workers in Germany and Japan.

Thank you. I'd be happy to answer any questions from the committee.

The CHAIRMAN. Thank you very much. I do not have any questions.

Senator Kassebaum.

Senator KASSEBAUM. I have a couple that I would like to ask, Mr. Chairman. I did not hear Mr. Henderson, but Mr. Gruber, I was interested because if I understood correctly, you were saying that there would be a shift if indeed there is, of course, an increased cost of doing business. That is a given. Now, we could argue it is a benefit, and it should be done, or we can argue that it should not, but it is a cost, an additional cost. And you said it would be shifted to wages. Was I correct in hearing you say that, Mr. Gruber?

Mr. GRUBER. Yes.

Senator KASSEBAUM. And then, Mr. Henderson, from what I know of your testimony, which I have read, you would agree with that?

Mr. HENDERSON. Yes, I do. In fact, one of the things I want to point out is that Jonathan Gruber and I were talking during the break, and we agree on a lot of this. We agree that the main people who pay for an employer mandate are employees.

Mr. GRUBER. If I can amend that, I think we definitely are in agreement on that, but I think there are really four other things to think about when you draw that conclusion.

First of all, yes, I think we are in agreement that the cost of this plan would largely be borne through wage falls, but you have to remember that the subsidies that are in these plans will really mitigate the wage falls that are necessary. I think especially the subsidies in the plans this committee has proposed are structured nicely to really mitigate any wage falls that are necessary.

The other thing, if I could just finish, the other thing to remember is that wages may fall, but workers are getting a valuable benefit in return; so the value of their compensation is not falling. Their wages are falling, and they are getting health insurance. So that what they are taking home at the end of the day has not necessarily fallen; for many workers, it will rise.

And the last thing to remember is that for a large number of workers, this will lead to a wage rise. There are over one million workers earning the minimum wage who are insured, and they are going to benefit from plans like this, because the cost of health care will be lowered through things like pooling small firms and through the subsidies that are offered.

And in all this discussion I think what has really been absent is to consider the alternative—what happens if we do not do anything? We see stagnating real wages in the United States exactly because the costs of rising health care have been shifted to wages. What we want to do is try to reform health care, get costs under control, and then we can see real wages rising again. I think that is important to keep in mind when we talk about wages falling.

Senator KASSEBAUM. Mr. Henderson, maybe you want to respond to that.

Mr. HENDERSON. Yes, I do. Professor Gruber said that workers are better off—but think about that. If workers have made a wage agreement for a certain package of benefits, and the Government comes along and dictates a different package, there is a presumption that workers are worse off, absent the subsidies. I agree with you, the subsidies can make them better off, because they disguise the——

Senator KASSEBAUM. Somebody pays for the subsidies, too.

Mr. HENDERSON. Pardon me?

Senator KASSEBAUM. Subsidies have to be paid for by someone.

Mr. HENDERSON. Yes; someone has to pay them, and so someone else is worse off.

Senator KASSEBAUM. And it is the taxpayers in this case.

Mr. HENDERSON. That is right.

Senator KASSEBAUM. Which I think fits in, in some ways, Mr. Chlopak, with what you were saying when you said that 20 percent of the unemployed—is that what you were saying?

Mr. CHLOPAK. No. These are working people. Twenty percent of the working uninsured.

Senator KASSEBAUM. Were uninsured, I mean.

Mr. CHLOPAK. Twenty percent of the working uninsured are in large businesses of 1,000 or more employees.

Senator KASSEBAUM. But on the other hand, at Pizza Hut, as we just heard, they have an opportunity to contribute and participate in a health care plan. They have said there are some who choose not to do so.

Mr. CHLOPAK. Senator, I do not really consider, based on Mr. Scherb's testimony and the numbers we have heard today, the $600 annual cost for insurance of a Pizza Hut worker, which is what they have to pay in the first 6 months when they pay 100 percent of the cost, and they must continue to pay for the entire basic coverage in order to get the company contribution after 6 months——

Senator KASSEBAUM. It is $11.

Mr. CHLOPAK. For the average Pizza Hut worker, working 22 hours a week, at $5 an hour, that is 11 percent of their annual compensation. I do not consider that much of a choice, Senator.

Senator KASSEBAUM. But it is what they themselves said they wished to have—a minimal plan, where they are paying $11 a week. I think that a number of young people prefer, because they think they will not be sick, to have it in wages. Now, you could argue there should be greater wages at Pizza Hut, but I really believe that this is something—knowing from my four children, who are in their 30's, that this is something they weigh.

One of my sons did contract work. Contract workers are not paid benefits with the company they contract with—many of them. He was young, and he decided he did not want to pay what it would cost to take an insurance plan out of his monthly paycheck. He does now, because he got tired of my mentioning it—plus, he got a better job. But this is something that young people do have to stop and think about. So I think it is really kind of a statement that does not take into account what both economists here have said is a reflection of what people's choices are, as a matter of fact.

Mr. CHLOPAK. I would just point out, though, that Lewin-VHI, for the National Association of Manufacturers, found that 28 percent of the health care costs paid by major manufacturers—which is $11 billion—is the result of cost-shifting.

Most of these people are getting care today and are covered, but they are not covered by Pizza Hut and McDonald's. So there is a wage suppression effect today, but it is being borne by other employers and other sectors. And I think what we are talking about is that the only way we are going to get everybody in this country covered is that everybody pays his fair share.

Senator KASSEBAUM. And it was not until the large employers, the major corporations—as was just pointed out by Senator Coats—when Ford would benefit by $1 billion, but another large corporation would be losing that much. Cost-shifting takes place no matter how you try to construct it. So that is a given as well.

But more importantly, this really did not get people's attention until health care costs started escalating, and for the business community, it became an ever greater cost of doing business.

We have really not done much here in any way to address cost containment, and I think that is something that is most unfortunate, because we are talking about expanding insurance, but we are not talking at all about ways of real cost containment. It does not need to be done with price controls. It could be done with a tax cap for both employers and employees. But nobody wants to do that on either side of the aisle.

So we have still skirted what was one of the major issues that originally precipitated this debate.

Mr. Chairman, I am giving a statement now.

Thank you very much.

The CHAIRMAN. Of course, the fact remains that the people who do not have insurance end up paying about 21 percent of their health care costs, and somebody else ends up paying for them, and somebody else ends up paying more, but it is not in these particular industries.

The fact remains on the Pizza Hut benefit package—and I was not going to get back into it—but it was evaluated by the Hayes and Huggins Group, which is a benefit consultant group whom we asked to evaluate it—I will put their report in the record—but this is what they say about Pizza Hut: "The benefits are far below the norm of corporate plans, in fact, are probably less valuable than the benefits offered by almost any large employer." This is what they can buy into.

Mr. CHLOPAK. It is a bare-bones package.

The CHAIRMAN. The consultant writer, "The only time I have seen a plan with benefits this low is a supplemental Medicare or other policy. Is this possibly a supplemental plan?"

That is their evaluation, even if the worker can buy into it, it offers little real protection.

What is the point is that it is difficult for me to believe that the employees are the ones who said, let us have this program; we will pay the full cost of it for the first 6 months, and then we will continue to pay the full cost of the basic benefits package, and then in terms of any supplemental, we will get some shared participation. I do not know where—I would love to see the documentation that says this is just what we want as employees, because you have very few of the employees participating in the program.

Well, we want to thank all of you. We will leave the record open for any questions for any of the witnesses here this morning by other members.

[Additional material submitted for the record follows:]

Clifford H. Raber
Vice President
Government Relations

Direct Dial Number
708/575-3632

July 20, 1994

Honorable Edward M. Kennedy
Chairman
Committee on Labor
and Human Resources
SD-48 Dirksen Senate Office Building
Washington, D.C. 20510-6300

Dear Mr. Chairman:

Thank you for your recent invitation to appear before your committee on July 22, to discuss matters relevant to information prepared by the Health Care Reform Project which discusses employer taxes in certain foreign countries.

McDonald's will be pleased to take this opportunity to discuss the issues raised before the committee. We are sorry that Mr. Quinlan is not available on such short notice, and we therefore request to have Mr. Stanley R. Stein, Senior Vice President, Human Resources, of McDonald's Corporation appear before the committee on July 22. Mr. Stein is a member of McDonald's senior management team, responsible for human resources worldwide and the best qualified person in McDonald's to discuss the issues raised by the HCRP report, as well as related issues.

We would note that the information you asked us to address would give the impression that McDonald's is a monolithic corporate entity. The reality is that McDonald's is structured as a multi-local franchising system, with more than 70% of the worldwide restaurants owned and operated by independent local business people. These independent businessmen and women operate their restaurants within the provisions of a franchise agreement with McDonald's Corporation, and develop and implement their own business practices, including employee benefits, consistent with conditions within their local market area and in compliance with all applicable laws and regulations.

The more than 2,500 franchisees who operate 85% of the McDonald's restaurants in the United States provide a wide range of benefit programs for their employees. While McDonald's Corporation provides consulting services within the provisions of our franchise agreement, our franchisees both here and overseas make their own decisions about benefits and other business practices without the direct involvement and knowledge of McDonald's Corporation.

I wish to add that the McDonald's system is proud of the many opportunities which we provide for workers around the world, especially for the many teenagers for whom a job at McDonald's is their first experience in the workplace. These early job opportunities and training experiences often open the door to careers in management either with McDonald's or other businesses. It is important to note that more than one-third of McDonald's franchisees started as restaurant employees.

Others have used part-time jobs as a stepping stone to further education or other careers.

We look forward to participating in the committee meeting on Friday.

Sincerely,

Clifford H. Raber

cc: Honorable Nancy Kassebaum
Honorable Paul Simon

United States Senate

COMMITTEE ON LABOR AND HUMAN RESOURCES
WASHINGTON, DC 20510-6300

July 15, 1994

Mr. Michael Quinlan
Chairman
McDonald's Corporation
1 McDonald's Plaza
Oak Brook, Illinois 60521

Dear Mr. Quinlan:

This morning the Health Care Reform Project (HCRP) released a study of the health benefit coverage provided by Pizza Hut (a division of PepsiCo), and McDonald's for employees in the United States and overseas. According to this study, there is a considerable disparity between the coverage these companies provide to their employees in the United States and the coverage they provide to workers abroad.

I also understand that the HCRP has attempted to place an advertisement based on this study with television stations in the Washington, DC area, without success. In an article in today's *The Wall Street Journal*, HCRP states that "Pizza Hut has scared local stations into refusing to air" the advertisement.

As you know, the House and Senate are involved in important discussions on health reform, and floor debate will begin shortly. The issues raised by the HCRP report, and the controversy surrounding its release, are vitally significant for this debate.

I therefore request you to appear before the Senate Committee on Labor and Human Resources on Friday, July 22, 1994, at 10 am in Room 430, Dirksen Senate Office Building, to discuss matters relevant to the HCRP report. To ensure that you will be able to answer all questions thoroughly, please bring any associates with you who will be able to join in responding.

I appreciate your assistance and cooperation.

Sincerely,

Edward M. Kennedy

Edward M. Kennedy
Chairman

"DUAL STANDARDS: HEALTH INSURANCE FOR AMERICAN AND FOREIGN EMPLOYEES OF MULTINATIONAL CORPORATIONS"

Statement of Congressman Dan Glickman

July 22, 1994

Today's hearing is a result of the efforts of the Health Care Reform Project (HCRP), a coalition of groups in favor of President Clinton's health care initiative, to target Pizza Hut, a company headquartered in my district, as health care enemy number one.

Pizza Hut has been a good corporate-citizen. Pizza Hut was the first major restaurant company to offer health insurance to both its part-time and salaried employees. When Pizza Hut was designing their program, it polled its employees in order to create a plan that fit their needs. Additionally, Pizza Hut runs the country's largest reading incentive program, in which kids are given free pizza for reading books.

Why then has Pizza Hut been targeted by the HCRP as being such a bad company? Mostly because Pizza Hut has exercised its First Amendment right to express its opposition to employer mandates. One can disagree with Pizza Hut about the economic effects of employer mandates. I have had plenty of groups come into my office and do just that. At the end of the day, there is a possibility that Pizza Hut and I are going to disagree on my ultimate vote on health care reform. However, attacking Pizza Hut and forcing Allan Huston, the CEO and President of Pizza Hut, to come to Washington to defend his company serves no purpose other than to polarize the debate when what is required is a consensus.

I think Mr. Huston should be commended for coming to a hostile environment to defend Pizza Hut's policies. Hopefully, after this hearing Congress can get back to the real work of crafting a health care bill that gives people the security of knowing that when they need medical care, they will receive quality care at a reasonable cost.

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FACSIMILE COVER SHEET

TO: Anthony Tassi

FROM: Edwin Hustead

DATE: July 21, 1994

NUMBER OF PAGES (Include cover): 1

This is in response to your request for a quick opinion on the relative value of the health plan you provided by fax earlier today. I would normally begin with a series of caveats but this one is so clear that I don't feel the need for any.

The benefits are far below the norm of corporate plans and, in fact, are probably less valuable than the benefits offered by almost any large employer. The typical corporate plan covers reasonable and customary benefits at 80 percent coinsurance (20 percent copay) after a deductible of $200. Out-of-pocket copayments are limited to $1,000 to $3,000 a year. Outpatient mental illness benefits are typically limited to $1,000 to $2,000 a year.

The plan you sent only pays 50 percent of some costs and excludes others entirely or pays lower amounts. The limit on the hospital benefit of $250 a day would result in the employee paying over three-fourths of the bill. There is no benefit for inpatient mental health care. There is no limit on out-of-pocket copayments. Outpatient mental illness benefits are limited to $350 a year.

For example, an employee with a $10,000 hospital bill would receive benefits of at least $7,500 from most corporate plans, FEHBP plans, and plans being considered by Congress. The plan you sent me would only pay about $2,000 of the bill.

The only time I have seen a plan with benefits this low is as a supplement to Medicare or other policy. Is this possibly a supplemental plan?

The CHAIRMAN. The committee will stand in recess. Thank you.
[Whereupon, at 1:30 p.m., the committee was adjourned.]

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